



Coats Group plc
Annual Report 2021

ACCELERATING AND TRANSFORMING

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Introduction

WE ARE ACCELERATING PROFITABLE SALES GROWTH AND TRANSFORMING COATS FOR THE FUTURE

Coats is the world's leading industrial thread company. The pioneering history and innovative culture of Coats enable the delivery of its purpose to connect talent, textiles and technology to make a better and more sustainable world.

We provide complementary and value-adding products, services and software solutions to the apparel and footwear industries.

We also apply innovative techniques to develop high technology performance materials threads, yarns, fabrics and

composites in areas like personal protection, telecoms, energy, transportation, and household and recreation.

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.

Our vision is to be the global textiles leader and trusted partner delivering innovation, digital and sustainable solutions with lasting value to all stakeholders.

Find out more online:

- ▶ See our online 'Year in Review' at coats.com/ar2021
- ▶ 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

2021 full year results and highlights

21 NEW PRODUCTS LAUNCHED

\$37 million of incremental revenue

29% 

Revenue growth

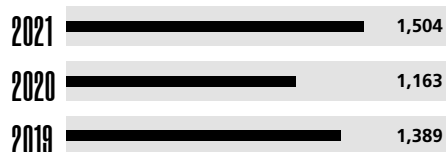
1.50c 

Proposed final dividend

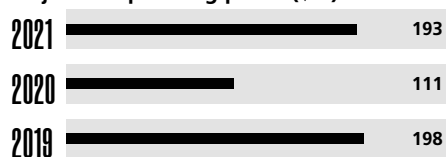
\$96M 

EcoVerde sales up 159%

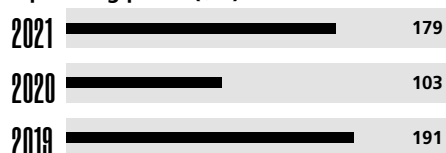
Revenue (\$m)



Adjusted operating profit (\$m)



Operating profit (\$m)



Key Performance Indicators

*Indicates our KPI measures. See pages 18-19 for more details and historical performance.

- Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 12. Constant Exchange Rate (CER) are 2020 and 2019 results restated at 2021 exchange rates. Organic vs 2020 on a CER basis includes like-for-like contributions from Pharr HP (post acquisition date of February 2020). Organic vs 2019 on a CER basis includes like-for-like contributions from ThreadSol (post acquisition date of February 2019) and excludes contribution from Pharr HP (acquired in February 2020). Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.
- Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.
- Leverage calculated on a frozen GAAP basis, and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt.

^A Alternative Performance Measures – see note 35.

Financial performance

	2021	2020	Change	^A CER change	^A Organic change
Continuing operations					
Revenue*	\$1,504m	\$1,163m	29%	29%	29%
Adjusted¹					
Operating profit*	\$193m	\$111m	75%	74%	75%
Basic earnings per share	6.8c	2.4c			
Free cash flow*	\$113m	\$28m			
Net debt (excl. IFRS 16)	\$147m	\$181m			
Reported²					
Operating profit	\$179m	\$103m	74%	74%	74%
Basic earnings per share	6.1c	1.8c			
Net cash generated by operating activities	\$129m	\$66m			
Final dividend per share	1.50c	1.30c			

Highlights

- Accelerating Group sales growth of 29% (6% vs 2019) with continued momentum:
 - Apparel & Footwear: 33% sales growth (5% vs 2019); demand recovery and positive end market sentiment across US, Europe and Asia
 - Performance Materials: 19% organic sales growth (8% vs 2019)
- Strong thread market share gains in A&F (up 2% to 23%) and customer share wins in PM, as customers prioritise reliability and flexibility of supply, sustainable products, quality, speed, and innovation
- EcoVerde revenues up 159% to \$96 million; significantly enhanced sustainability ambitions announced
- Continued innovation focus; 21 new products contributing \$37 million incremental revenue
- Adjusted operating profit \$193 million (reported \$179 million); inflationary pressures absorbed by successful pricing actions and self-help productivity programmes
- A&F adjusted operating margins 15%¹; PM adjusted operating margins 7%¹, or 14%¹ excluding the US
- Adjusted EPS of 6.8c per share (reported 6.1c per share), vs 2.4c per share in 2020
- Strong cash generation; net debt (excl. lease liabilities) of \$147 million and strong adjusted free cash flow of \$113 million; 0.7x leverage³; building resilience and creating a strong platform for growth
- Final dividend of 1.50 cents per share proposed, +15% vs 2020 final dividend given the strong 2021 performance and a sign of the Board's confidence into 2022

Coats at a glance

Coats is the world’s leading industrial thread company. We are headquartered in the UK and a FTSE 250 constituent with global operations generating revenues of \$1.5bn in 2021.

\$1.5BN

Group revenues

12.8%

Operating margins

0.7x

Leverage

We deliver innovative, value-adding and premium product and service solutions for our c.40,000 global customers to meet specified design requirements. Our products are a critical component in global industries like Apparel and Footwear (A&F) and Performance Materials (PM) including products for the Personal Protection industry, Composites and Performance Threads for multiple but focussed end-use sectors.

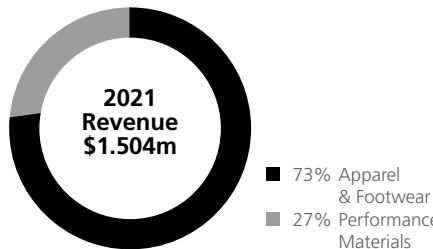
Sustainability is at the core of our business values, and we continuously strive to support our customers in achieving their

sustainability goals. Whilst we continued to see regional Covid outbreaks during 2021 we were able to use our flexible business model and supply chains to maintain robust financial performance.

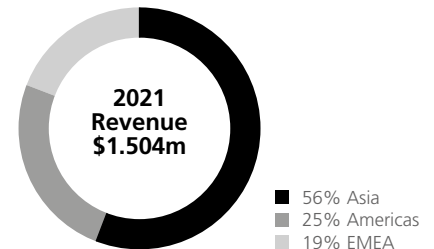
Headquartered in the UK and quoted on the London Stock Exchange, we have a global sales presence and digital platforms that enable us to serve customers wherever they are located.

Our unrivalled global reach and footprint serve as one of our competitive advantages.

2021 revenue by division



2021 revenue by region



Our Sustainability strategy

During 2021 we added ambitious new targets to our Sustainability strategy, which focus on transitioning to sustainable materials, net-zero emissions and promoting circularity in all we do. These new goals map our high-level sustainability journey and run in tandem with the strategy launched in 2019 that focussed on the key issues facing our business, which continue to be our high-priority targets for delivery in 2022 and beyond. For more information refer to page 12.

Our five sustainability pillars are:

Water

Energy

Effluent

Social

Materials



Where we operate

6

Operating in six continents

c.40,000

Customers globally

>250

Years of textiles experience

Apparel & Footwear

\$1,094_M

2021 revenue

\$164_M

2021 operating profit

15.0%

Margin

Overview

We are the trusted value-adding partner, providing critical supply chain components and services to the \$1.4tn global apparel and \$350bn footwear industries. Our portfolio of world-class products and services exist to serve the needs and requirements of our customers and brand owners.

Main customer markets

We ultimately supply products and services to 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 and footwear manufacturers

4,000

Retailers and brands

Product type	End uses	Key Coats brands
Apparel & Footwear and accessories threads (c.85% of 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, EcoVerde, Eloflex and Drybond
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

\$409_M

2021 revenue

\$29_M

2021 operating profit

7.1%

Margin

Overview

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 A&F thread expertise, which has been built up over 250 years, we are able to innovate to provide highly engineered solutions to meet our customer needs by incorporating specific design features into various thread and yarn-based products.

Main customer markets

We develop high-technology Performance Materials including products for the Personal Protection industry, Composites and Performance Threads for multiple but focussed end-use sectors.

8,500

PM customers

End-use sector	End uses	Key Coats brands
Personal Protection (c.40% of sales)	Combining comfort, safety and protection – fire retardant and cut resistant threads and yarns	Firefly, FlamePro and Armoren
Composites (c.25% of sales)	Telecoms and Energy, Automotive, Footwear	Gotex, Synergex, Lattice™, Ultrabloc, Aptan XU, Gral Binder and Protos Ripcord
Performance Threads (c.35% of sales)	High-performance threads and yarns for the Automotive and Household & Recreation industries as well as other technical industrial applications such as feminine hygiene	Gral, Helios, Gral Quilt, Protos Fil, Epic, Gramax, Admiral and Neophil

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. This provides a solid platform from which we can innovate, grow and deliver consistently strong shareholder returns.

Throughout 2021 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 the apparel and footwear market	2. Leading player in the performance materials market	3. Focus on digital, innovation and sustainability
Which provides us as an organisation with	A strong and defensible core business representing some 73% of Group sales.	Ability to build scale through technology, innovation and acquisition. Representing some 27% of Group sales.	Ability to focus on the continuing challenges from macro trends that are shaping the world and give us the tools that enable us to deliver value to all our stakeholders.
Key attributes of this element	<p>Global leader in A&F thread market, consistently increasing market share in a stable market (pre/post-Covid).</p> <p>Leading the response to meet changing industry needs – speed, personalisation, innovation, cost, quality, responsibility and sustainability.</p>	<p>Performance Materials has a global presence; building scale both organically and inorganically. It includes products for the Personal Protection industry, Composites products and Performance Thread products for multiple but focussed end-use sectors.</p> <p>Performance Materials offers products that deliver performance and safety, and solves industry problems through applying our vast textile expertise.</p> <p>Innovation in developing or acquiring new competencies and technologies – such as carbon and glass composites.</p>	<p>Thinking ‘beyond the stitch line’ to collaborate with internal and external stakeholders to repurpose our products into new ones and use machine learning for new ways of operating – fit for the digital age.</p> <p>Innovation and big, bold game-changing ideas are crucial to our success.</p> <p>Industry leader in sustainability agenda, giving us competitive advantage as well as to support our customers’ ambitious sustainability agendas.</p>
Highlights	<p>33% Sales growth</p> <p>23% Thread market share (up 2% versus 2020)</p> <p>159% Increased revenues from our EcoVerde product range</p>	<p>19% Organic sales growth</p> <p>Continued customer share gains</p> <p>Strong demand across all sub-segments</p>	<p>21 New products generating \$37m incremental revenue across A&F and PM</p> <p>4 Bold new sustainability targets</p> <p>Our Science Based Targets were approved by the Science Based Targets initiative</p>

For more information visit coats.com/investors

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	<p>Focussed improvement programmes and experienced management to deliver margin and other financial improvements.</p>	<p>Strong Adjusted Free Cash Flow and high Return on Capital Employed (ROCE).</p>	<p>Ability to build scale in the strategic focus areas which are currently fragmented competitively.</p>
Key attributes of this element	<p>Ensuring the Group is 'fit for purpose' and agile in the modern high-paced world.</p> <p>Productivity gains and procurement initiatives.</p> <p>Investing in energy/waste reduction to improve operational efficiencies.</p> <p>Cost and Cash discipline around the organisation.</p>	<p>Balancing key cash demands of organic investment, pension schemes and shareholder returns.</p>	<p>The Group's acquisition strategy looks to identify companies with complementary capabilities that can further strengthen the core, technology, innovations, or Intellectual Property and which can be scaled to deliver growth and value for customers and shareholders.</p>
Highlights	<p>12.8% Adjusted operating profit margin, well ahead of 2020</p> <p>Inflationary pressures absorbed by successful pricing actions and self-help productivity programmes</p>	<p>\$113m Strong cash generation</p> <p>0.7x Leverage; building resilience and creating a strong platform for growth</p>	<p>Growth through acquisitions is a key element of the Group's strategy and the Group will continue to be disciplined in the assessment of acquisition opportunities as they arise.</p>

Chair's statement



Accelerating profitable sales growth and transforming Coats to deliver sustainable stakeholder value

Dear Shareholder

Our priority is accelerating profitable sales growth and transforming Coats to deliver sustainable stakeholder value.

We started 2021 with confidence, clarity and a strong balance sheet. We delivered exceptional growth versus 2020 and strong growth vs 2019 despite regional Covid disruption in Vietnam and India. This clearly demonstrates the strength of our global operations and the underlying resilience of the business model. We will continue to focus on strengthening our core business by putting our customers at the heart of everything we do, whilst investing in our people.

Delivering stakeholder value

Having spent many years in leading global businesses with complex supply chains, I have watched businesses successfully transform by staying alert to changing consumer trends. Accelerated profitable sales growth is achieved by focussing on the core to drive market share as well as a disciplined drive to purchase, integrating strategic acquisitions internationally, and so establishing new markets in new geographies and categories, whilst divesting where necessary.

At Coats, we have the right growth strategy and agility to transform our business. We will move at pace to adopt new ways of working, capturing emerging opportunities, delivering further efficiencies, whilst remaining true to our purpose of delivering sustainable value for all our stakeholders. The Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US.

A key component of our strategy is value creation and the disciplined use of capital to fund inorganic opportunities to build scale and acquire new capabilities, technology and talent. We have a robust pipeline of M&A opportunities.

We are committed to developing strategies that will build our competitive advantage and this will be the differentiator between us and our competitors. In our Apparel & Footwear segment, we are growing faster than the market because of our excellent value proposition, our global footprint, our reputation for quality and our drive towards innovative and sustainable products. In the Performance Materials segment, there remain further high-growth opportunities in both composites and personal protection that offer exciting new prospects for Coats.

Sustainability and innovation

Sustainability is a core strength for Coats which constantly gives us commercial wins in the market place. Innovation is at the heart of everything we do and is crucial to our success, and our dedicated Innovation Hubs mean that we continue to evolve and adopt new innovative products and techniques. We have recently announced that our Asia Innovation Hub in Shenzhen, China, will be refocussed on the research and development of new biomaterials for the future. As a pioneering company we continually aim to deliver further revenue growth from creating value-enhancing new products that do not currently exist. It is pleasing to note that we launched 21 new products in 2021, generating \$37m of incremental revenue, with a healthy pipeline of opportunities ahead of us.

In November, Rajiv and I attended the World Climate Summit, an official side event of

COP26, the annual United Nations climate change conference, and it was here that we announced the acceleration of our Sustainability strategy. We publicly committed to our sustainability goals and our milestones along the way to achieve a net-zero carbon footprint. Refer to page 12 for more detail.

With the ever-increasing importance of the social and environmental impacts of businesses, and the focus on governance and reporting of non-financial performance data, we have set up a new Board Sustainability Committee. This Committee will be responsible for Coats' Sustainability strategy, its governance and the monitoring of progress. We are proud to commit that over time we will move all our products to environmentally friendly materials and chemicals. The recent approval of our Science Based Targets (SBTs) supports our goals to reach net-zero emissions by 2050. Linked to these very important goals we have decided that 20% of the shares granted to our senior management under the Long Term Incentive Plan (LTIP) will be linked to ESG measures ensuring direct accountability for our sustainability goals. Refer to page 18 for more detail.

Strategic report

Coats has a leading market position, with a sound strategy, a positive culture and a talented team. I am looking forward to using my experience and expertise, and working with the leadership team to help Coats transform by focussing on everyday efficiencies, innovation, brand building, and global supply chain excellence to ensure sustainable value creation.

A world-class team

We have continued to focus on the health, safety and wellbeing of our employees. The results of this year's 'Your Voice Matters' survey continue to reflect high levels of employee engagement with a 90% response rate and an engagement score of 83 which is well above the Glint benchmark of 74. It is encouraging that 82% recommend Coats as a Great Place to Work (GPTW). The results also recognised the wellbeing programmes we provide, with 81% of respondents telling us that Coats takes a genuine interest in employees' wellbeing. We have emerged stronger as we remain focussed on our

Coats has a leading market position, with a sound strategy, a positive culture and a talented team

strategic priorities coupled with protecting our business and our customers. I am extremely proud of the whole Coats team which has demonstrated great resilience and dedication, and on behalf of the Board I would like to thank all our employees for their part in contributing to this success.

I am very proud that in our first year of external certification, 83% of our employees now work in an accredited GPTW and the overall score of 92 in our Health and Safety survey demonstrates our strong safety culture.

We recognise the fact that good business behaviour is fundamental to strong financial performance, and our global code of conduct, 'Doing the right thing' is reinforced through continuous communication throughout the year, educating our workforce on open and honest behaviour and promoting ethical standards in their day-to-day work.

Changes to the Board

The Coats Board continues to drive diversity from the top. The current composition of the Board demonstrates this commitment with good ethnic, gender and geographical representation. A number of Board changes have occurred during the year. Jackie Callaway joined Coats, taking on the role of Chief Financial Officer at the start of 2021, and she has already made a valuable contribution to both the Board and the Group Executive Team. With my move to Chair of the Board, I have stepped down as Chair of the Remuneration Committee and I am delighted that Non-Executive Director, Echo Lu has now taken on this position, bringing her strong background in general management and track record of delivering positive change experience to this role. Full details of the changes are provided in the Nomination Committee Report on page 86.

Stakeholder engagement by the Board

The Board has a vital role to play in engaging and partnering with our stakeholders, and throughout 2021 the Board continued to engage either remotely or in person. During the pandemic and as we emerge from the challenges of the restrictions, there has been an increased focus on ensuring customers are supported appropriately and we are committed to communicating regularly with our customers to ensure customers are at the heart of decision-making. Employee engagement is key to a motivated and connected workforce and Fran Philip, our designated Non-Executive Director for Workforce Engagement has been very active this year meeting a wide range of employees, including senior executives, across our global business.

The Board has also undertaken reviews in our different international operations to listen directly to leaders from around the world and hear about how Coats' strategies are being implemented on a country-by-country basis, whilst gaining local knowledge of competition and customer insights. Our people continue to provide a rich source of ideas and perspectives which are invaluable to the Board.

In 2021, we undertook an independent investor audit and I have personally talked to several of our top 20 shareholders to consider their insights on our strategy and hear about their future requirements. Read more about our approach to stakeholder engagement on pages 20-23.

Dividend

The Board is mindful of the importance of returns to shareholders and, as a result of the strength of the Group's balance sheet, the strong growth and recovery out of the Covid pandemic, and its confidence in the strategy and growth outlook for the Group, it is pleased to propose a final dividend of 1.50 cents per share, +15% vs the 2020 final dividend (of 1.30c). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2022 to ordinary shareholders on the register at 29 April 2022, with an ex-dividend date of 28 April 2022. This recommendation is a good demonstration that we are back on track with a return to our previously published progressive dividend policy.

Going forward, the Board aims to use the Group's free cash flow to fund its capex, pension schemes, progressively increase the ordinary dividend, finance acquisitions, and make further returns to shareholders as appropriate.

Looking ahead

Our leading market position, as well as our broad portfolio and geographical footprint provides a foundation for sustainable value growth. Our priority is to accelerate profitable sales growth whilst transforming Coats for our future. We will continue to manage costs and deliver on our sustainability goals. The combination of our strong leadership team and our talented and resilient workforce ensures we are in an excellent position in the marketplace. This is supported by a sound strategy and a positive culture.

I would like to express my thanks on behalf of the Board to all our employees across the world for their exceptional commitment and dedication and I look to the future with confidence. Coats is well placed to deliver transformation and profitable sales growth and to create long-term sustainable value for all our stakeholders.



David Gosnell
Chair
2 March 2022

Group Chief Executive's statement



I am particularly pleased with the further strong growth of our EcoVerde range of recycled threads and our continued progress towards our 2024 target

Dear Shareholder,

Purpose and strategy

Our priorities are to accelerate profitable sales growth and to transform Coats to deliver sustainable stakeholder value.

2021 results overview

2021 was a year of demand recovery and strong market share gains. Coats delivered sales growth of 29% over 2020 and an organic sales growth of 6% over 2019. Momentum increased throughout the course of 2021 with the final two months of the year seeing growth of 20% vs 2019 in both Apparel & Footwear ("A&F") and Performance Materials ("PM"), vs 6% for the Group for the four months ended October and 1% in the first half of the year.

2021 was also a year of significant supply chain challenges. Our global scale, technology infrastructure, health and safety focus, talented teams and strong supplier relationships meant we were able to navigate Covid-related lockdowns in some of our key markets, as well as inflationary pressures, supply chain disruption and labour availability issues. We quickly identified and reacted to these challenges by successfully implementing pricing and self-help programmes to offset increased raw material, freight and labour costs and, at the same time, continuing to provide our customers with the high quality service they expect from Coats.

The Group saw strong thread market share gains in A&F (up 2% to 23%) and customer share wins in PM as customers prioritised sustainability, quality, speed, supply chain flexibility and innovation. Adjusted operating profit was \$193 million for the full year. Adjusted operating profit margin of 12.8% was well ahead of 2020 (9.5%) and slightly lower than 2019 (14.3%) primarily due to labour disruption in the wider US business, and lockdown impacts in Asia in Q2 and Q3. A&F adjusted operating margins were 15.0%, with PM adjusted operating margins of 7.1%, or 14.4% excluding the US. Earnings saw a strong recovery towards pre-Covid levels as operating profit recovery was accompanied by a normalisation of our tax rate and lower interest charges.

Strong adjusted free cash flow of \$113 million has led to net debt (excl. lease liabilities) at the end of the period of \$147 million, giving 0.7x leverage, below the lower end of our target leverage range of 1-2x, providing a strong platform to take advantage of attractive organic and inorganic investment opportunities to further accelerate growth in the future.

Strategic enablers: Sustainability, Digital and Innovation

Our strategic enablers of Sustainability, Digital and Innovation underpin our strategy to accelerate profitable sales growth and to deliver sustainable stakeholder value.

Sustainability

A key part of our company purpose is to make a better and more sustainable world. When we launched our sustainability strategy, 'Pioneering a sustainable future', in 2019, we laid out ambitious targets for 2022 and 2024. We remain committed to those targets and have significantly increased our ambitions in order to evolve our sustainability strategy and increase momentum, as well as to further enhance our competitive advantage. We will reduce emissions by 46% in this decade and reach net-zero by 2050. By 2030, 70% of our global energy consumption will come from renewables. Our other new targets are:

- Eco materials: By 2030, all Coats products will be made completely independently of new oil-extraction materials such as polyester and nylon
- Circularity: We will shift to circularity, creating products and packaging solutions that enable recycling and reuse, both within our own operations and across the wider garment industry

We will continue to invest in our sustainability strategy and have earmarked \$10m to fund the scaling up of green technologies and materials that are relevant to our industry supply chain. Our Asia Innovation Hub in Shenzhen, China is being re-purposed to focus on the application of biomaterials.

Meanwhile we have made very good progress on our 2022 targets, in particular:

- One of our 2019 targets was to have external social certifications, such as Great Place to Work, across all our key sites, with over 80% of our employees in certified sites by 2022. Last year, we achieved 83%, reaching the target a year early
- We also saw excellent sales growth in EcoVerde, our range of 100% recycled products, with revenues for the full year up 159% to \$96 million (FY2020 \$37 million), on track for our 2024 target for all our premium polyester threads to be made from 100% recycled material
- We have almost achieved our energy reduction target of 7% (6.9% reduction) a year early, and expect to deliver substantially better than the target in 2022

Digital

Our investment in technology infrastructure and digital tools has allowed us to flex our supply chain, react to situations with speed and ensure we are focused on customer, shareholder and employee value creation. In 2021 we enhanced our digital customer ecosystem, ShopCoats, through which customers can, for example, use automated bulk and sample ordering and status management. We onboarded valuable key accounts through system integration, refreshed our front-end order system and used Microsoft Dynamics CRM to further professionalise our sales and customer service systems. These tools give us speed, agility, lower cost and more customer satisfaction.

We continue to evaluate acquisitions in line with our strategy and investment criteria and will remain disciplined in our assessment of these as they arise

Innovation

We continue to create innovative new solutions to solve our customers' current and emerging challenges. During 2021 we launched 21 new products across both A&F and PM (FY2020 22 new products), delivering incremental revenues of \$37 million (FY2020: \$13 million). Examples of innovation within A&F include Lattice Lite Eco, a revolutionary fibre-laying technology using sustainable materials to create footwear composite materials for the next generation of high performance supershoe. We also launched EcoRegen during 2021, a biodegradable thread made from 100% lyocell, and part of Coats' Eco Journey roadmap to produce innovative sustainable products which support our drive towards a circular economy. In PM, the largest selling innovation was a new FlamePro product called FlamePro Orbit with lighter weight, higher performance and improved strength and protection qualities. We also developed Epic Patriot for US non-flame retardant military applications with a specially formulated lubricant. 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 solutions to meet customers' design requirements.

Dividend

The Board is mindful of the importance of returns to shareholders and, as a result of the strength of the Group's balance sheet, the strong growth and recovery out of the Covid pandemic, and its confidence in the strategy and growth outlook for the Group, it is pleased to propose a final dividend of 1.50 cents per share, +15% vs the 2020 final dividend (1.30c). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2022 to ordinary shareholders on the register at 29 April 2022, with an ex-dividend date of 28 April 2022. Alongside the interim dividend of 0.61 cents per share, this makes a total of 2.11 cents per share for the full year 2021.

Strategic Projects

The Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. These projects will result in anticipated incremental adjusted operating profit of \$50 million by 2024. Total cash exceptional costs are expected to be around \$35 million.

Outlook

The strong end to the year has continued into the start of 2022, and despite some evidence of stock replenishment from customers during this period, we expect continued growth for 2022 as a whole. We remain confident in our ability to offset inflationary pressures through pricing and productivity actions. We now anticipate the Group's FY 2022 performance to be modestly ahead of our previous expectations.



Rajiv Sharma

Group Chief Executive
2 March 2022




Our strategic goals

We have three strategic goals to work towards in order to achieve our vision

Our vision is to be the global textiles leader and trusted partner delivering innovation, digital and sustainable solutions with lasting value to all stakeholders.

Goal	Description
1. Profitable sales growth	Apparel & Footwear Increasing our market share by delivering sustainable, innovative and value-adding product and service solutions to our global customer base.
	Performance Materials Lead with innovative and sustainable developments in highly engineered products creating textile-based industry solutions for attractive and growing end markets.
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.
3. Value creation	Disciplined use of capital to fund inorganic opportunities to build scale and acquire new capabilities, technology and talent.

Our goals are underpinned by the following strategic enablers:

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 30-45 in this report.
		

Case studies

DIGITAL: NEXT GENERATION E-COMMERCE

ShopCoats is our next generation customer-centric e-commerce platform, built using modern, highly secure and scalable cloud technologies to facilitate sales growth and increased market share through rapid digital innovation and new applications. As a one-stop portal, ShopCoats enhances the customer experience from requesting a sample to placing complex bulk orders across multiple product lines. This enables Coats to execute new business strategies aimed at customer growth and new product innovation across its entire customer base.

The data-driven view of all of our customers and their behaviour means that they are able to make better informed decisions on their business, sales and marketing strategies. It also provides them with the speed and service that they demand by automatically interfacing with our ERP and bespoke product and manufacturing systems, giving comprehensive product availability and delivery lead times.

In an industry with an ever-increasing focus on agility, visibility, sustainability, and ease of doing business, the digitisation of the key ordering process differentiates our offering from competitors. This places us in a position to deliver new features in weeks rather than months; build on our end-to-end digitisation of the customer experience; and turn opportunities into realities.

INNOVATION: THE FUTURE OF ELECTRIC VEHICLES

Coats joined a team to develop a tailored fibre-reinforced composites solution for volume manufacturing of structural battery enclosures in electric vehicles under a US Department of Energy cooperative agreement.

This collaboration builds on previous work in developing lightweight, intrusion resistant composite floor reinforcement structures. We are providing expert knowledge and innovation in tailored fibre-reinforced composites technology to help develop a lightweight, high-performance and cost-effective structural battery enclosures. Coats proposed the use of Lattice™ and Lattice Conductive™ technologies to design and manufacture ultra-light composite material products. Lattice is an optimised continuous fibre laying technique which creates preforms with no waste while Lattice Conductive allows for integration of conductive paths and electronic circuitry in moulded composite components. We then use our proprietary Computer Aided Engineering tools to create a 2D Lattice continuous fibre preform that can be fabricated into a 3D preform mould.

Lattice technology reduces cost by generating zero-waste preforms by placing fibres only where needed. It is also cost effective because there is a 50% reduction in the steps required to fabricate the 3D preform for moulding. The development will be resourced from our Innovation Hub in Sevier. The project is due to run until December 2023.

SUSTAINABILITY: CREATING A CIRCULAR ECONOMY

Coats helps leading apparel and footwear brands realise their sustainability ambitions. One such example is our partnership with a rapidly growing premium athleisure company, with whom Coats has a longstanding relationship and through which we highlighted the importance of thread and helped them set a minimum thread standard. This led to our first orders received in 2018 as they moved to our higher quality and more durable thread. Subsequently we reinforced our strong relationship by supporting the launch of their innovation hub. In the next step of the partnership, we are now supporting them in the transition from virgin to recycled polyester to achieve their ambition of reaching 100% non-virgin polyester in their products by 2025. The strength of our relationship with designers, testing and manufacturing gives confidence that the quality, reliability, colour matching and other characteristics of our recycled offering is comparable to virgin polyester equivalents.

We are also engaged in discussions to explore the use of Eco-B and EcoCycle as a part of their circular economy vision and are aligned to advancements in their supplier selection process, which include water and carbon reduction, through our own SBTi commitments. Our sustainability roadmap, our investments into innovation, and strong relationship mean we are ideally placed to help the brand meet their own sustainability goals, and in doing so secure and enhance our long-term relationship.

Our sustainability strategy

Pioneering a sustainable future

During 2021 we added ambitious new targets to our Sustainability strategy, which focus on transitioning to sustainable materials, net-zero emissions and promoting circularity. These targets map out our high-level sustainability journey for the future. In 2019 we committed to a range of short-term targets against the key material issues facing our business and

while we have virtually achieved two of them a year early, these targets continue to be our immediate priority for delivery in 2022. The targets that mature in 2022 will be replaced with interim targets that will continue to focus on our key issues. Sustainability practices have always been embedded in the way that Coats operates. There is a strong belief in

the Company that being sustainable is not at odds with running an effective and successful business, but that they are complementary. Having a clearly defined Sustainability strategy that is integrated into our business strategy helps us to accelerate our progress in delivering material improvements.

Accelerating our journey

Net-zero

Coats commits to net-zero by 2050. By 2030, 70% of our global energy consumption will come from renewables.

Social impact

Coats commits to making sustained progress and will develop 2030 targets for DE&I, workplace health and safety, employee and community wellbeing and supplier social performance.

Eco materials

By 2030, all products will be made completely independently of new oil-extraction materials.

Circularity

Coats will shift to circularity, creating products and packaging solutions that enable recycling and reuse, within its own operations and across the wider garment industry.

Water

Water is currently an essential solvent in our industrial processes. Our goal is to reduce the amount we use, reuse where we can and promote the development of technologies that use less or no water.



Energy

We use energy to run our processes both for powering motors and for providing process heat. Our aim is to reduce the energy we require, as well as to decarbonise it, and hence reduce our emissions.



Effluent

Water that we use in our processes gets contaminated and our responsibility is to minimise that contamination and to clean the water prior to returning it to the environment.



Social

We have multiple responsibilities towards our employees and we take them all very seriously and use measures of engagement to track progress alongside other key indicators. We also have a responsibility towards our communities and seek to engage them through our employees.



Materials

Our aim is to use materials as sparingly as possible and to ensure that those materials are as sustainable as possible. Reducing waste and transitioning to recycled raw materials are our targets.



Our low-carbon online annual review

More details on our progress to reduce our carbon footprint can be found in our [Sustainability Report online](#).

Our commitment to innovation

Our innovation fund

Over the next five years we will invest \$10m in scaling up the development of the green technologies and materials that will accelerate delivery of our sustainability goals.

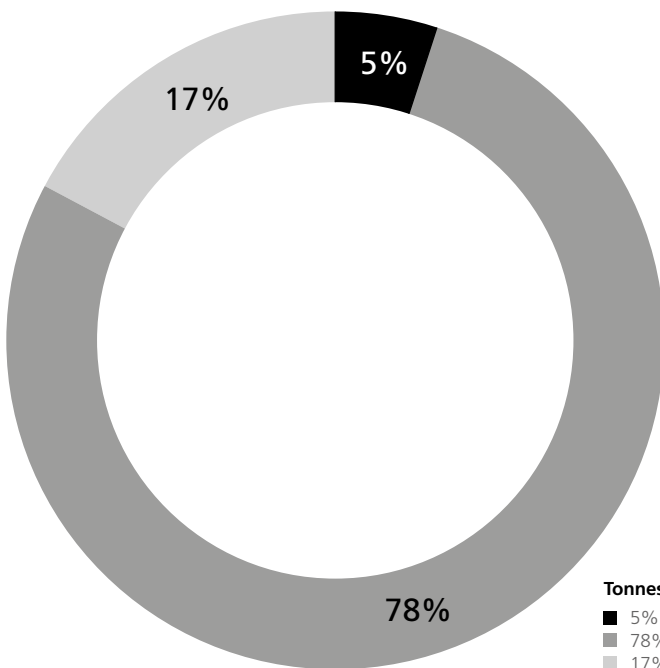
Focus on biomaterials

The Coats Innovation Hub – Asia, in Shenzhen, China, will have a new mission and be re-purposed to focus on the application of biomaterials. Over the long term, Coats aspires to move all products to environmentally friendly materials and chemicals.

\$10M INVESTMENT

Roadmap for reducing emissions

2021 Emissions profile



Tonnes CO₂e

■ 5% Scope 1 – 63k tonnes CO₂e
 ■ 78% Scope 2 – 891k tonnes CO₂e
 ■ 17% Scope 3 – 191k tonnes CO₂e

- Scope 1**
This is our direct use of fuels in our factories. This is mainly used to provide heat energy for our processes, but also includes fuels used to generate electricity and power vehicles on our sites.
- Scope 2**
This is mainly our use of electricity bought from third parties, where the emissions are caused in the generation of the electricity. In some locations we also buy heat energy from third parties and this is included here.
- Scope 3**
This includes all the indirect upstream and downstream emissions that relate to our entire product value chain. The bulk of these emissions are caused in the production of our raw material and in the transport of materials from suppliers to us, between our units and to our customers.

Science Based Targets (SBTs)

Our approved Science Based Targets on the 1.5°C pathway are shown below.

Scope 1 and 2 emissions

-46.2%

By 2030

Coats Group plc commits to reduce absolute scope 1 and 2 GHG emissions 46.2% by 2030 from a 2019 base year.

Renewable electricity

100%

By 2030

Coats Group plc also commits to increase annual sourcing of renewable electricity from 5% in 2019 to 100% in 2030.

Scope 3 emissions

-33%

By 2030

Coats Group plc further commits to reducing absolute scope 3 emissions 33% within the same timeframe.

Market trends

What markets do we serve?

Apparel & Footwear (A&F)

Coats is the global market leader in supplying premium sewing thread to the A&F industries, and is estimated to be over twice the size of the nearest thread competitor with a c.23% thread market share. The global thread market is estimated to be c.\$4bn and whilst thread only represents 1-2% of the cost of a typical garment, it is a critical component in the manufacturing process and for the quality and performance of the finished product. We are one of the few global players of a key supply chain component in the \$1.4tn global apparel and c.\$350bn footwear industries which are projected to grow at low single digits in the medium term. We also supply selected zip and trim products, and our fashion tech business provides software solutions for speed, productivity and transparency in customers' operations. Whilst Covid and supply chain constraints continued to impact our industry in 2021, we expect industry growth rates to return to previous levels medium term. In A&F we are growing faster than the market because of our excellent reputation for quality, our value proposition, our global footprint and our strong sustainability agenda.

Performance Materials (PM)

We are global experts in the design and supply of highly engineered, performance threads, yarns and lightweight composites used in a range of industries including thermal and cut protective wear, telecom infrastructure, automotive and feminine hygiene. We estimate the addressable market (ie into which we currently or could realistically serve near term) is c.\$3bn, of which c.\$2.4bn relates to highly-engineered end uses, and hence we estimate we have a market share of around 14%. In PM, we anticipate mid-high single digit organic growth medium-term, with higher growth opportunities in both Composites and Personal Protection. In Personal Protection we expect medium term growth of high single digits, in Composites we expect double-digit growth, and in Performance Thread we expect growth to be at or around global GDP.

Trends that are impacting our businesses:

1. Supply chain flexibility

Across the industries we serve, speed to market is increasingly a critical differentiator, accelerating processes through design, development, manufacturing, sourcing and retail. Our customers are increasingly looking at their own supply chain resilience, including reviews of their supply base and sourcing geographies. During 2021 specifically, we saw significant industry supply chain disruption with reduced availability of raw materials, labour constraints and disruption of sea freight operations, all contributing to increased inflationary pressures. We expect these challenges to continue into 2022, increasing the importance of speed, agility and supply resilience across the industries we serve.

Trend #1: Our response in the year

We have continued to pivot quickly, responding to and supporting our customers' needs in a highly volatile environment. Our unrivalled global footprint, our scale and agility proved invaluable as we delivered high levels of customer service and supply through multiple external challenges. In response to increasing inflationary pressures we reacted by successfully implementing pricing and self-help programmes. In China, we progressed in meeting changing customer needs leading to higher share of the growing domestic market. Beyond Asia, we were able to respond to higher demand in EMEA and the Americas as customers sought out more balanced and resilient supply chains.

2. Living sustainably

Sustainability continues to increase in importance across the industries we serve, driven by consumer pressures, customer strategies and legislative changes. COP26 delivered further global progress across the environmental agenda. This significant shift in sentiment and behaviours is manifested in areas such as materials innovation, energy renewables, water management, waste reduction and social justice and compliance. Many of our customers are developing partner programmes that put sustainability at the heart of ongoing collaboration. Our expectation is that this trend is irreversible and will only increase in importance over time.

Trend #2: Our response in the year

When we launched our Sustainability strategy, 'Pioneering a sustainable future', in 2019, we laid out ambitious targets for 2022 and 2024. We remain committed to those targets and have significantly increased our ambitions in order to evolve our Sustainability strategy and increase momentum, as well as to further enhance our competitive advantage. We will reduce emissions by 46% in this decade and reach net zero by 2050. By 2030, 70% of our global energy consumption will come from renewables. Our other new targets are:

- Eco materials: By 2030, all Coats products will be made completely independently of new oil-extraction materials such as polyester and nylon
- Circularity: We will shift to circularity, creating products and packaging solutions that enable recycling and reuse, both within our own operations and across the wider garment industry

We will continue to invest in our Sustainability strategy and have earmarked \$10m to fund the scaling up of green technologies and materials that are relevant to our industry supply chain. Our Asia Innovation Hub in Shenzhen, China is being re-purposed to focus on the application of biomaterials.

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 threads and yarns to enhance the functionality and 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 yarns and fabrics used in protective wear and composites that deliver high performance, lightweight solutions in industries such as oil and gas (eg deep water pipes), telecom infrastructure and automotive. In A&F, we continue to partner closely with global brands to support their ambitious innovation agendas with a particular focus on sustainable and circular thread 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. We launched 21 new products in 2021, delivering revenues of \$37 million. Examples within Composites include Lattice Lite Eco, a revolutionary fibre-laying technology using sustainable materials to create footwear composite materials for the next generation of high-performance supershoe. In Personal Protection, the largest selling innovation was a new FlamePro product called FlamPro Orbit with lighter weight, higher performance, improved strength and multi-protection qualities. We also developed Epic Patriot for US non-flame retardant military applications with a specially formulated lubricant.

4. Growth of Asian domestic markets and Asia brands

Domestic consumer demand in Asia is both significant and expected to grow faster than JUSE (Japan, USA, Europe) markets. Globally, as a derived demand component, sewing thread markets are expected to grow by low single digits percentage over the medium term, but with higher growth in Asia as demographics and consumer wealth expands. This is reflected in the growth of domestic fashion retail, most notably, but not only, in China and India. Demand for Composites is increasing due to the pace of urbanisation (eg the rollout of fibre optic cable networks) and economic growth, which means consumers purchase more products needing high performance materials (eg outdoor goods and passenger vehicles). 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 #4: Our response in the year

We continued to develop and execute our domestic market growth strategies in China and India, building on our competitive advantages of product range, quality, technical application and brand strengths. In Apparel & Footwear, we delivered market share gains and significant growth in China and made strong progress coming out of Covid disruption. In Performance Materials we delivered significant share gains in China in Performance Threads with multiple new programme wins for automotive safety critical and trim applications as well as a very successful start to producing and selling FlamePro branded flame retardant fabrics in India mainly for use in garments destined for the middle eastern oil and gas market.

5. Digital

Industry adoption of digital technology has accelerated significantly during the Covid pandemic as companies look to drive faster speeds, increased productivity, lower waste and end-to-end supply and materials transparency. For example, in the apparel industry, adoption of 3D sampling technologies has increased rapidly, with several brands now developing 30% of samplings virtually. Customers have likewise adopted production planning, product lifecycle, quality systems and material usage software in far greater numbers. As a result of these trends, customers are demanding higher levels of digital integration with their strategic partners. We believe that this trend will only accelerate further during 2022 and beyond.

Trend #5: Our response in the year

Coats Digital, our Fashion Tech business, enables fashion brands, sourcing companies, and manufacturers to optimise, connect and accelerate business critical processes seamlessly, including: design and development; method-time-cost optimisation; production planning and control; fabric optimisation and shop floor execution. In 2021 bookings saw high double-digit growth ahead of reported sales growth, indicating confidence for continued future growth. The order pipeline remains strong for 2022. We enhanced our digital customer ecosystem, ShopCoats, through which customers can, for example, use automated bulk and sample ordering and status management. We onboarded valuable key accounts through system integration, refreshed our front-end order system and used Microsoft Dynamics CRM to further professionalise our sales and customer service systems. These tools give us speed, agility, lower cost and more customer satisfaction.

For more information about our market environment refer to our [Investor section online](#).

Business model

**Our purpose
is to connect talent, textiles and technology
to make a better and more sustainable world**

**Pioneering
a sustainable
future**

**Developing
innovative textile
solutions**

**Delivering
industry leading
digital services
and embracing
new technologies**

**Investing in
and growing
our talent and
technical expertise**

The value we create

Employees

We are committed to the health, safety, rights and wellbeing of our employees. Our diverse international workforce is highly engaged with committed employees who operate in an innovative and solution-focussed culture.

>18,000

Employees across the globe

Environment

Building on our 'Pioneering a sustainable future', we laid out ambitious new targets to evolve its Sustainability strategy, increase momentum and take it to the next level.

4

Bold new sustainability targets

Customers

As customer expectations evolve, we are continuing to focus on responsibly sourced, sustainably produced products.

40,000

Number of global customers

Communities

We actively engage with our local communities under our three global pillars of Education, Health and Wellbeing and Textiles providing educational support to children, food donations, DE&I events, thread donations and tree planting.

7,900

More than 40% of our employees participated in volunteering initiatives

Shareholders

We are committed to delivering superior returns and aim to deliver long-term value for our investors.

2.11c

Total dividend for 2021

Suppliers

We look for the right balance of global, national and local capability and create local, flexible supply chains.

\$1bn

Paid to suppliers

► Read more about stakeholder engagement on pages 20-23.

Our key strengths

Strong customer relationships

We have longstanding relationships across all levels of our customers' organisations that provide deep market insight. Our global brand teams work with top retailers and brands globally. We work with 30,000 apparel, footwear and accessories customers, 8,500 Performance Materials customers and c.4,000 retailers and brands globally.

Global asset and supplier base

We are uniquely positioned across the globe to deliver consistently high service levels on short lead times, with the ability to flex our supply chain to meet customer needs in a fast-moving and ever-evolving environment. We manufacture on 50 sites, across six continents, with 100+ warehouses, the majority of which are connected by a global ERP system which allows us to flex our supply chain in a volatile environment. We have a diverse and global supplier base and carefully manage and monitor our supply chain.

Highly engaged and committed workforce

We have an innovative and solution-focussed culture with a highly engaged, diverse and committed workforce of over 18,000 employees.

Longstanding reputation for responsibility

'Doing the right thing' is in our DNA – we have a longstanding ethical reputation amongst suppliers to the global garment industry, with strong ESG and sustainability credentials.

Ambitious sustainability targets providing a competitive advantage

A key part of our purpose is to make a better and more sustainable world. We have a very ambitious set of sustainability targets across five pillars of sustainability: water, energy, effluent, social and materials. We gain competitive advantage from helping our customers to de-risk their own supply chains. We also have a fast-growing range of sustainable products made from recycled threads, as well as innovations in biodegradable and water dissolvable threads.

Longstanding culture of innovation

We have a longstanding culture of innovation. Our Innovation Hubs provide spaces to collaborate with customers, in which we can provide new solutions to solve their problems or to improve their finished products.

Strong sales and marketing capabilities

Our close interactions with leading global retailers, brands and manufacturers give us the ability to quickly respond to specific needs and pressures. Our global brand teams liaise closely with our top brand customers to ensure a strong network of relationships.

World-class manufacturing and quality

We manufacture to high ethical, labour and environmental standards whilst delivering consistent colour and exceptional product quality. Our products are tested and measured against stringent safety standards.

Industry-leading digital and technical capabilities

We have been at the forefront of digital innovation by component suppliers to the global garment industry for several years. We have an industry-leading set of digital services including colour sampling, online training, e-commerce and supply chain management. We also provide technical support to our customers across the shop floor, with thousands of digital and technological interventions.






► [Read our investment case on pages 4-5.](#)

Key performance indicators



Performance measures of the Group's progress

During 2021 we continued to monitor our performance and progress using the consistent range of key performance indicators (KPIs) 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 35 on page 188.

Financial KPIs

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2021 commentary
Revenue growth ¹ Linked to our strategic goal 	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.	2021 – 29% 2020 – (19%) 2019 – 1%	Significant end market recovery across all segments and regions after Covid impacts in 2020. Sales returned to above pre-Covid levels.
Adjusted operating profit growth ² Linked to our strategic goal 	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.	2021 – 75% 2020 – (43%) 2019 – 6%	Profit recovery after significant Covid disruptions to manufacturing operations in 2020.
Adjusted earnings per share growth Linked to our strategic goal 	Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.	Measures the underlying progression of the returns generated for shareholders.	2021 – 181% 2020 – (65%) 2019 – 1%	Significant growth underpinned by operating profit recovery, a normalisation of effective tax rate and lower interest charges.
Adjusted free cash flow Linked to our strategic goal 	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.	2021 – 113 2020 – 28 2019 – 107 All figures are in \$(m)	Strong cash flows underpinned by operating profit recovery, alongside disciplined approach to working capital and capital expenditure.
Return on capital employed (ROCE) Linked to our strategic goal 	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.	2021 – 40% 2020 – 22% 2019 – 42%	Operating profits back to around pre-Covid levels, alongside a continued well controlled asset base.

Business critical non-financial KPIs

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2021 commentary
Recordable accident rate (RAR) Linked to our strategic goal 	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.	2021 – 0.45 2020 – 0.59 2019 – 0.50	Increased focus on training and hazard reporting and remediation delivered a strong reduction in incidents.
Employee engagement score Linked to our strategic goal 	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.	2021 – 83% 2020 * 2019 * 2018 – 83%	The first survey with a new system had good participation rates and showed that engagement had been maintained at previous high levels.

Link to strategy



1. Profitable sales growth



2. Continuing to strengthen the core



3. Value creation

2022 Sustainability KPIs

We have five targets that mature in 2022, one for each pillar of our sustainability strategy. During 2022 we will be formalising our post 2022 targets for each pillar and these will align with our 2030 commitments as described on pages 12-13 and in more depth on pages 27 onwards, including our approved Science Based Targets for emissions reduction.

KPI	Definition	Why we measure this	Performance	2021 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.	2021 – 67 2020 – 76 2019 – 83 2018 – 86 Litres per kilo of production	We have made strong progress in 2021, achieving a reduction of 22% against our 2018 baseline.
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.	2021 – 8.6 2020 – 9.1 2019 – 9.4 2018 – 9.3 kWh per kilo of production	We have nearly achieved our 2022 target a year early with a reduction of 6.9% against our 2018 baseline.
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.	2021 – 82% 2020 – 74% 2019 – 34% % effluent that is compliant with standards	We continue to make good progress with achieving ZDHC compliance in our units.
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.	2021 – 83% 2020 – 6% 2019 – 19% % of global Employees covered by a GPTW certificate	After a drop in 2020 due to the pandemic, we have made strong progress in 2021 and have achieved our target a year early.
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.	2021 – 16% 2020 – 16% 2019 – 18% 2018 – 17% Waste as a percentage of materials used	We have achieved 3% reduction against our baseline. There are various projects underway to accelerate this in 2022.

2024 Sustainability KPI

We currently have one target that matures post 2022 and this will continue to be part of the targets that we develop for the post 2022 horizon.

KPI	Definition	Why we measure this	Performance	2021 commentary
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.	2021 – 19% 2020 – 13% 2019 – 2% % of premium product sales made with recycled material	We continue to make strong progress in this area, steadily increasing supply by broadening our supplier base.

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

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

Paying for Performance

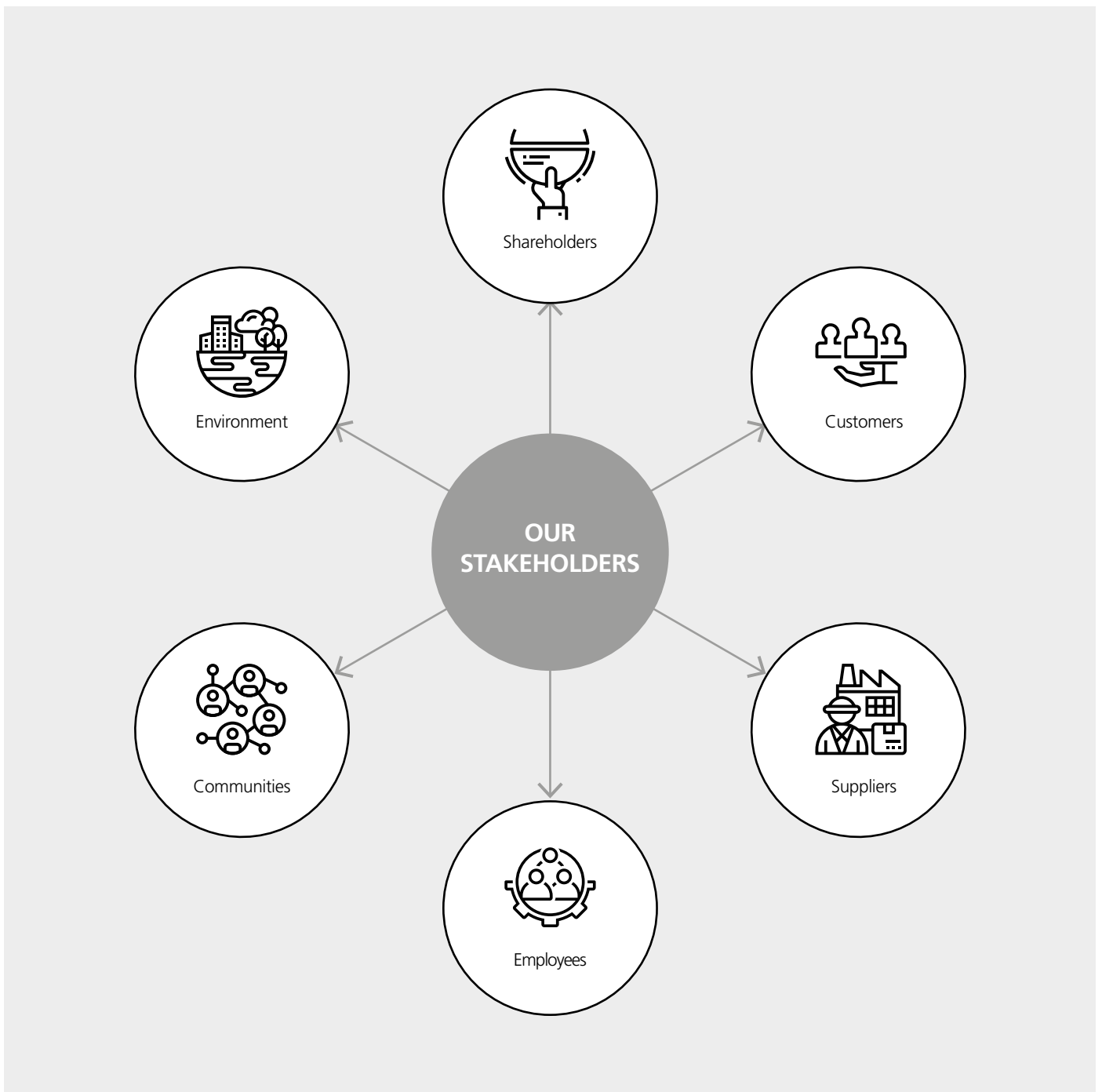
The incentive plans used to reward the Directors and selected senior managers include Performance Measures linked to our Key Performance Indicators. For more detail see the Directors' Remuneration Report on pages 96-113.

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.



Employees

Our 18,000 plus 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 2021

Fran Philip, Non-Executive Director and Board representative for workforce engagement continued her role in 2021 and was able to carry out a combination of in person and virtual meetings. She met with representative groups from all our regions, continued her six-monthly calls with senior representatives of the regions and attended our quarterly Diversity, Equity and Inclusion Network calls with a range of people from across the Company. Fran shared what she had learnt with the Board in September and December. As well as hearing from Fran the Board also had a presentation on the employee feedback from the Your Voice Matters survey – our employee engagement survey which took place in May – and our Health and Safety survey which took place in September.

What we learnt

The themes from Fran's meetings showed that employees continue to praise Coats for its handling of Covid. In particular they felt safe within our premises and felt that by supporting employee families and local communities, we were doing more than other companies. The feedback also showed that there are opportunities for more employee recognition.

What we are going to do in 2022

In 2022 Fran will continue her virtual meetings and plans to meet with representatives from every region during the year as well as continuing to meet twice per half with senior representatives of the regions and attending the quarterly Diversity, Equity and Inclusion Network calls. Covid permitting, Fran will increase the number of in person meetings she holds.

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 2021

2021 marked the opening of a new chapter with Coats customers. We commissioned our first Net Promoter Score (NPS) survey, a build on previously commissioned research. This research showed that our customers have positive feedback when it comes to quality, customer service and reliability. Our sustainability, innovation and technical service engagement also drives increased satisfaction. In addition to global customer surveys, we have dedicated commercial, sales and marketing teams who connect, collaborate and partner with customers and brands, constantly listening and innovating to help bring their visions to life.

What we learnt

Speed and agility continue to be important to our customers and our ability to adapt and offer solutions to support customers is a critical industry differentiator. Having a global manufacturing and supply chain presence is a key strength for Coats, and has allowed us to be flexible when facing unexpected circumstances such as the temporary closure of our Vietnam site due to Covid. At that time, when our customers were struggling to manufacture end products, we were able to offer a speedy solution and had products shipped from China to Vietnam.

What we are going to do in 2022

When it comes to digital, we have spent 2021 refocussing and enhancing the end-to-end digital customer journey, making sure that every channel or touchpoint makes it easy for the customer to get what they want or need from Coats. For example, during the Covid pandemic, we created a digital app called TechConnect that made it easy for our customers to get technical support online. We recently launched a new and enhanced e-commerce platform called ShopCoats that allows our customers to seamlessly place orders with us. We have also recently launched a new best-in-class Seamworks Cloud tool that helps customers calculate their thread usage and cost with minimal effort – reducing cost and wastage. We will continue to enhance and improve customer end-to-end experience through future digital applications.

Stakeholder engagement continued

Shareholders

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

How the Board engaged during 2021

The Chairs of the Board Committees engage with shareholders as and when appropriate and in 2021 our new Chair David Gosnell held a series of introductory investor meetings with our key shareholders. Our Senior Independent Director, Nicholas Bull, also joined our Head of Sustainability and Head of Investor Relations on a broad series of meetings with investors to discuss our sustainability agenda, targets and progress. The Board also engaged an external provider to undertake a comprehensive investor audit of both existing and prospective shareholders, in order to understand the effectiveness of our communications and address areas of improvement. 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 and this trend continued during 2021. We continued to embrace virtual formats for all investor interactions, which included results roadshows, investor conferences as well as ad hoc group calls on specific topics (eg 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 remains a key priority. We have continued to proactively engage with our key shareholders to keep them updated on the developments in the business.

What we are going to do in 2022

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 and 2021. This will allow us to leverage the benefits from both physical interaction and the efficiency benefits of virtual interactions. We will continue to engage around all major announcements, and also continue with our increased level of engagement with investors on our sustainability agenda.

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 2021

During 2021 the Board has continued to increase its engagement regarding environmental matters. Climate change continues to be the highest priority issue here, but effluent treatment and continued innovation in new, more ecological, products are also high on the Board agenda. Apart from Board discussions members of the Board have contributed directly to activities with an environmental focus. The Chair and CEO both attended the World Climate Summit held in Glasgow in parallel to COP26 and our CEO participated in two panel discussions during those events. The Board advocate for ESG, Nicholas Bull, also attended over 20 dedicated sustainability meetings with investors and potential investors at which environmental issues were a major area of discussion. We published our third Sustainability Report which detailed the progress towards our ambitious targets for 2022 and 2024 and included our second Communication on Progress (COP) as Participants of the United Nations Global Compact, which detailed activities supporting the environmentally-focussed Sustainable Development Goals that Coats aspires to contribute to. Having signed up to the Science Based Targets programme under the more challenging Business Ambition for 1.5°C target at the beginning of 2021 we have developed our proposed targets and these have now been validated by Science Based Targets initiative.

What we learnt

We have to take urgent action to ensure that we are doing what we can to reduce and mitigate the climate emergency. This will protect our business interests and provide opportunities for growth while also contributing to reduce the risk of catastrophic climate change. We see that, not just in terms of climate change, protecting the environment is not only a matter of behaving ethically and responsibly but also a means to enhance and grow our business, delivering better outcomes to all our stakeholders. Increasingly we need to look at the full life-cycle impact of our operations and the products that we produce and develop long-term strategies as a result.

What we are going to do in 2022

Having focussed on the development of our 1.5°C pathway targets in 2021 we are going to develop net-zero pathway targets during 2022. Moving forward in the delivery of our 1.5°C targets will involve the Board in reviewing and approving projects aimed at transitioning to renewable electricity. We will also focus on delivering our effluent target for 2022 and review and agree the next horizon targets for effluent quality. We will also be focussing on the plans to deliver the new commitments announced in 2021 and detailed in the Working Responsibly section on pages 26-45.

<p>Communities</p> <p>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.</p>	<p>How the Board engaged in 2021</p> <p>There is an obvious overlap between our employees and the communities in which we operate, and hence a common interest, but beyond that we share the local environment and resources with our neighbouring communities. For these reasons Coats needs to work in partnership with these communities. The Board fully recognises this need and supports the efforts of the Company to work constructively with communities, but does not have a lot of direct contact with community groups, especially as travel has continued to be constrained during 2021. After a difficult year in 2020 where many community activities had to be curtailed and the remaining activities were mainly focused on pandemic-related support. The Company has managed to significantly increase its activities in 2021 and return to a broader range of activities centred around our core concerns of education, health and wellbeing and textiles, with pandemic-related activities around education, and health and wellbeing being at the core of this. In total over 200 programmes were undertaken in 2021, which is more than three times what we achieved in 2020. The number of participants in these activities has also grown by more than five times compared to 2020. Because of the continued pandemic controls, much of this work has taken place remotely or with Covid protocols in place. The Board reviews these programmes and is supportive of the actions undertaken.</p> <p>What we learnt</p> <p>While the global impacts of the pandemic might have diminished in 2021 there were still serious waves of infection in a number of countries in which we operate, requiring continued community engagement activities with this focus, and we expect that this pattern will continue as different countries are affected by new variants or periodic flare-ups. Being able to respond quickly and in a way that is appropriate to the circumstances will continue to be necessary. We have also recognised that the financial and mental hardship caused by the pandemic will continue even after the immediate impacts of infections wane, and activities focussed on these areas will be required for the future. We have seen that these kinds of engagement build strong links with our communities. Working in partnership with our value chain is an emerging opportunity, especially the opportunities of working closely with customers and brands to deliver joint projects in shared communities.</p> <p>What we are going to do in 2022</p> <p>We have seen in 2021 that our engagement focus areas continue to be relevant to our communities and we anticipate continuing to build on the successes from 2021 with increased activities and greater participation from our employees. Sharing ideas between units is important because while local situations are never exactly replicated we have seen greater commonality due to the pandemic. The global team managing our community programme has and will continue to build greater internal transparency and sharing of ideas. We anticipate that there will be additional opportunities to develop broader partnership projects during 2022 and the Board is highly supportive of this approach. The Board continues to be strongly committed to proactive engagement with our communities and more details of our activities can be found in our Sustainability Report online.</p>
<p>Suppliers</p> <p>Our suppliers do not just supply components, products and services to us, but are true partners in our full process and aligned to our requirements on compliance, quality, sustainability and innovation ethos.</p>	<p>How the Board engaged in 2021</p> <p>Our long-term partnerships with our suppliers remain a key element to our business performance, where they offer additional value in our manufacturing and innovation process. The Board maintains a close alignment with our management of our key suppliers and their operating subsidiaries, where we review the performance and alignment to our joint goals and objectives. Key areas of attention remain the alignment to our Modern Slavery Statement in our Supplier Code of Conduct. We continue to audit and work with our suppliers to maintain this level of commitment and address any issues or concerns on an ongoing basis. This has been especially challenging during the current pandemic, but we have maintained the audits and checks to ensure adherence.</p> <p>What we learnt</p> <p>Our suppliers remain positive about our focus on compliance within our Code of Conduct and support our reviews, enabling us all to continue to develop a strong and interlinked mode of working. The standardised process offers a deep understanding of Coats' approach and expectations, and sets a strong base for understanding our working relationships while the audit process ensures continued alignment. With the development of our sustainability approach, suppliers remain close to our evolution and remain a committed partner in this regard.</p> <p>What we are going to do in 2022</p> <p>We will continue developing our close links with our supplier partners and engage with them through our audit process and more to ensure we maintain the close alignment and relationship. We continue to introduce measures to demonstrate this performance and utilise these as the basis for progressive and positive discussions, where our suppliers contribute strongly to our overall partnership relationship.</p>

Section 172 statement

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the Company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision making (S172 Factors). The Directors understand the importance of taking into account our stakeholder expectations and needs, to achieve our strategy and accordingly our long-term sustainable success. On pages 20-23 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.

The Board has had regard to S172 Factors in all of its key decisions and you can read more about these in the disclosures set out below. Further examples of Board engagement are set out on page 68.

A summary of our procedures for ensuring the correct balance of inputs into the decision making process and providing the correct conditions to enable the Board, in good faith, to make decisions that balance the S172 Factors include:

Board information

Leadership and management receive training on Directors' duties and best practice tips for preparing and presenting Board papers to ensure awareness of the Board's responsibilities. Our Board papers identify the key stakeholders for the matters under consideration and provide relevant information relating to them. The Board also continues to engage with stakeholders to understand their views. The Board considers relevant metrics in its decision making including employee engagement and customer NPS scores.

Strategic discussions and decision making

S172 factors are considered in the Board's discussions on strategy, including how they underpin long-term value creation and the risk implications for business resilience. The Group's culture helps ensure that there is proper consideration of the potential impacts of decisions in the long-term. See more on page 47. The Chair ensures decision making is sufficiently informed by S172 Factors and appropriately balances the interests of the various stakeholders. Additionally, the Board reviews and probes the information presented and receives assurance where appropriate.

Long-term consequences and high standards of business conduct

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. On pages 46-59, read about the ways we considered our stakeholders, the long-term impact of our decisions and our determination to maintain our high standards of business when considering our Principal and Emerging risks.

S172 factor	Relevant disclosures
(a) The likely consequences of any decision in the long-term.	<ul style="list-style-type: none"> Market trends (page 14) TCFD and Sustainability strategy (Working responsibly (page 38) and Sustainability strategy (page 12)) Principal risks and uncertainties (page 46)
(b) The interests of the Company's employees.	<ul style="list-style-type: none"> Employee engagement (Key performance indicators (page 18)) Stakeholder engagement (page 20) Culture, DE&I, and employee health and wellbeing (Working responsibly and Sustainability Report (coats.com/sustainability (page 26))
(c) The need to foster the Company's business relationships with suppliers, customers and others.	<ul style="list-style-type: none"> Our strategic goals (page 10) Stakeholder engagement (page 20) Principal risks and uncertainties (page 46) Operating review (page 60)
(d) The impact of the Company's operations on the community and the environment.	<ul style="list-style-type: none"> Stakeholder engagement (page 20) Working responsibly (page 26) Sustainability Report (coats.com/sustainability (page 26)) Principal risks and uncertainties (page 46)
(e) The desirability of the Company maintaining a reputation for high standards of business conduct.	<ul style="list-style-type: none"> Culture and values (Working responsibly (page 26) and Sustainability strategy (page 12)) Principal risks and uncertainties (page 46) Whistleblowing and Group Policies (page 36) Audit and Risk Committee Report (page 83)
(f) The need to act fairly as between members of the Company.	<ul style="list-style-type: none"> Business model (page 16) Investment case (page 4) Stakeholder engagement (page 20) Investor information and AGM (page 68)

-  **EMPLOYEES**
-  **CUSTOMERS**
-  **SHAREHOLDERS**
-  **ENVIRONMENT**
-  **COMMUNITIES**
-  **SUPPLIERS**

Board discussions during the year

Regional deep dives case study

During the course of 2021, the leadership team for each of the seven geographical regions presented an overview of the end-to-end business activities and risks for their area of the business.

Using this bottom-up lens to review the components of the business and understand how they contributed to the success, including the profitability, of the whole Group allowed the Directors to understand the culture and range of stakeholders' inputs and impacts in each region. This information fed into further discussion and decisions during the course of the year.



Detailed pre-read was circulated in advance which set out how the region contributed to the Group strategy, including the ambitions for A&F and PM, and how the Group purpose was evident locally. There was an overview of the market growth opportunities with consideration of the different needs of key customers that were identified by management, including a review of NPS survey insights where appropriate. Being able to contrast the case studies of customer and supplier experience across regions enabled insights, such as the impact on speed and agility of supply chain complexity, that were then appropriately shared across the Group. Through their review of people information, including feedback from the workforce, and relevant data from employee engagement survey, relating to each region, as well as interacting

directly with the regional management teams, the Board gained further insights into culture, inclusivity and diversity and succession planning as well as providing further context for long-term planning.

Local risk reviews provided a fresh perspective and included an overview of the risks (including in relation to reputation and business conduct), mitigation strategies and the impact of those strategies, and consideration of how this affected the Group.

Each region also provided an overview of sustainability, environmental and community initiatives and impacts. This pre-read was discussed in detail with the regional management teams and best practice from other areas was shared appropriately.

Board decision making during the year

Board decision	Examples of Board decision making during the year	Stakeholders considered	Board decision/outcome
Change to Group Executive Team (GET) and management structure to move from seven geographic regions to three	The Board considered the changes in ways of working as a result of the pandemic, the operational impacts of supply chain disruption and changes to demand from customers. The long-term consequences of realigning reporting structures and the impact of ensuring practicality of workforce collaboration across time zones were noted, and the opportunity was taken to align the reporting lines for health and safety and sustainability. Consideration of the employee impact of these changes also informed the final decision on structure.	 <p>See what we have learnt from Customer and Suppliers through our Stakeholder Engagement on pages 20-23.</p>	Noting the advantages of increasing the speed and agility of decision making to allow more effective supply chain management and quicker responsiveness to customers' requirements, it was agreed to change the reporting lines for the markets into three regions. The Board recognised the need to ensure the appropriate leadership for this new model for employees and the execution of the 2022 priorities, and it was agreed that the role of Chief Supply Chain Officer would be reinstated to the GET together with the addition of three new chief operating officer roles for Asia, Americas and EMEA.
Sustainability – increasing the Group's ambition	The Board considered the long-term consequences of increasing the Group's sustainability ambitions, when reviewing the inputs from each of the perspectives of brands, consumers, regulators, investors, current and future employees and competitors. The important link to the Group purpose was recognised as were the challenges in the supply chain.	 <p>See what we have learnt from the Environment and Suppliers through our Stakeholder Engagement on pages 20-23.</p>	It was agreed to increase the Group's sustainability ambitions as set out on page 12. The Directors further agreed to set up a Sustainability Committee to oversee the sustainability agenda for the Group. When making these decisions, the Board recognised the expectations of investors to see ESG matters embedded in strategy and the need to continue to minimise impact on the environment. You can read more about the Sustainability Committee on page 78.

Working responsibly

Highlights of 2021

- 83% of our employees work in a certified 'Great Place To Work'
- 94% participation in our Health and Safety survey with an overall score of 92
- Covid Prevention, Protection and Education approach
- 55,000 hours of training delivered
- Movement of our key people processes to SuccessFactors
- Launch of our Career Management Framework

Priorities for 2022

- Develop long-term goals for our social impact priorities
- Holistic approach to health, safety and wellbeing
- Introduction of continuous performance conversations
- Continuation of DE&I actions through a concerted focus on Inclusion
- Capability building for Commercial and Manufacturing
- Maturing the listening strategy

People

During 2021 our key areas of focus for our people were health, safety and wellbeing; listening to our people; learning and development; improving the employee experience through digitisation; and diversity, equity and inclusion.

In addition, we established our long-term social impact priorities that focus on DE&I, safety, employee and community wellbeing and ensuring that our suppliers are working to aligned social priorities. Having established these priorities, we will be working on the long-term goals and the intermediate milestone targets during 2022.

Health, safety and wellbeing

In 2021 Covid continued to be an important focus for our health and safety efforts. While in some countries the impact of Covid lessened, in others our teams still faced significant risks. In India there was a very serious second wave and that was later followed in Vietnam.

To support our employees and keep them safe from Covid we have put in place several measures across the Coats world flexing our approach based on the location specific circumstances. Our strategy focussed on the three pillars of Prevention, Protection and Medical Care, and Education.

In the area of Prevention we have facilitated Covid vaccinations for our employees by delivering them on site, providing paid time off for those countries where the local government has supplied them and paying for vaccinations in countries where they are not funded. To date, the percentage of employees who have voluntarily submitted their Covid vaccination status to us is as follows: 52.03% have had their first, 42.39% have had their second, and 11.01% have had a third vaccination or booster jab. On our sites we have enhanced our protection through contactless systems, social distancing enablement through our webcam system and providing private buses for commuting as an alternative to public transport.

The pillar of Protection and Medical Care saw us continuing to provide the basics such as hand sanitiser and face masks and building on this by expanding our telemedicine provision, private medical inpatient insurance, testing and employee assistance programmes across the globe.

Education focussed on mental health and wellness programmes, working from home assistance and broader topics impacted by Covid such as addiction prevention, health and nutrition awareness raising and first aid training.

Specific examples of our approach to Covid include India and Vietnam where we faced challenges from significant second waves. In India we delivered remote medical support for physical and mental health to all employees including telemedicine, counselling and monitoring of vital statistics.

In Vietnam where the government enforced a lockdown we gave our employees the option to live on site. 350 of our employees volunteered to stay on site and in 48 hours our team put in place living arrangements as well as all the appropriate measures to ensure everyone who stayed was safe.

As well as Covid protection we refocussed on our journey to zero strategy in 2021. This included running our second Journey To Zero week, to engage all of our employees worldwide. The theme for the event was 'Journey to Zero Hero' which saw more than 300 nominations for employees to be recognised as going above and beyond in the area of health and safety. It also incorporated a focus on slips, trips and falls which is our number one cause of accidents.

We were really pleased that our proactive health and safety initiatives lead to a record reduction in recordable incident rates, which reduced from 0.59 in 2020 to 0.45 in 2021. Refer to our Sustainability Report for more detailed information.

Our Whistleblowing Hotline has continued to provide support to our employees and received 98 incidents (compared to 88 in 2020). Of the investigations that have been completed (86%) 30% have been upheld

83%

Employees work in a certified 'Great Place To Work' facility

55,000

Employee training hours

90%

Employees took part in our Your Voice Matters employee survey

94%

Employees took part in our Health and Safety survey

(versus 22% in 2020). Nearly half of the upheld incidents relate to disrespectful behaviour while ethics code violations, health and safety issues and unfair employment practices make up most of the rest. In all cases we take robust action where an incident is found to be justified. The geographical distribution of incidents by region is broadly aligned with our employee distribution which indicates that our work to broadly publicise the availability of the whistleblowing system is successful. For the past few years we have used an internally managed hotline, and during 2022 this will be complemented by an external web-based channel. We feel this is an important move so as to offer our employees greater confidence that the process is secure and independent.

Listening to our people

Our employee listening strategy is designed to understand the overall employee experience. We respond to the feedback to enhance employee engagement as well as taking targeted actions to address concerns and continuously improve. In 2021 we ran our own in-house surveys and also took part in the external Great Place To Work (GPTW) surveys – one of the targets of our Sustainability strategy is to have GPTW or equivalent awards for all key sites by the end of 2022.

In 2021, we continued with our comprehensive programme of engagement surveys, this time with an external digital provider. Our Your Voice Matters survey results were extremely encouraging. 90% of our employees took part in the survey and our engagement score was 83 – well above the benchmark of 74. Our switch to the new digital survey provider meant that, for the first time, our employees could leave a comment on any question and we received more than 9,500 comments.

In addition to the Your Voice Matters survey, in 2021 we ran a Health and Safety survey to understand how employees felt about our health and safety culture, as well as some country specific pulse surveys, pulse surveys related to ethics and compliance and surveys in advance of opening our offices. Feedback from the latter informed our policies and helped us address concerns of

our employees. These pulse surveys were in addition to our employee lifecycle surveys that take place for new starters and leavers providing us the opportunity to compare our results with an external benchmark.

In addition to our series of in-house surveys, we have also been working with the GPTW organisation to achieve its accreditation. GPTW uses a combination of employee feedback and analysis of our people practices to assess our workplace culture. By the end of 2021 we were delighted that 83% of our employees belonged to a certified GPTW. Whether or not the teams achieve certification, they all receive feedback from the GPTW organisation on actions that can be taken to further improve the working environment.

Learning and development

We built on our successful switch to 100% online learning in 2020 and delivered more than 55,000 hours of training to our employees in 2021 through a variety of training platforms. These included Minerva, our online learning library, Learning zones, our remote classroom learning, and Subject Matter Expert training. In addition we added some new elements to our suite of learning programmes including Manager Excellence, focussing on critical manager skills through short relevant sessions of an hour every month for 12 months, and a new Mentoring Programme called Unlock Your Potential in which senior managers are paired with other employees for three months to support them to achieve particular objectives. While introducing some new programmes for our leaders, we continued to offer learning opportunities to our individual contributors and manufacturing employees.

At the end of the year we moved our online learning to SuccessFactors as well as introducing an even more comprehensive online learning library with a greater breadth of modules in multiple languages delivered via a wider variety of methods. In the area of development, 2021 saw the launch of our career management framework. Modern career journeys are not simply linear, and about upward mobility, they are about gaining a broad range of experiences. They can be lateral, cross functional, project work

Working responsibly continued

and/or alternative types of employment arrangements, for example, part-time. Our Career Management Framework gives greater visibility to what career options are available and helps everyone understand what modern career journeys look like at Coats. The Framework consists of our Career Management Philosophy and Process as well as career maps detailing which roles are available and how to transition between them and supporting materials such as career conversation guidelines.

Digitising our processes and connecting our people

2021 saw us re-double our efforts on the digitisation of our people processes. We moved three of our key processes to SuccessFactors – performance management, learning and recruitment. This is part of the continuation of our HR digitisation journey to make our processes more efficient and enhance the employee experience by introducing more user friendly and consistent tools. All our people related information is now in one place which improves data protection and enhanced reporting through SuccessFactors enables more informed decision making.

In addition we have rolled out our employee mobile app – Coats Link. For the first time, over 18,000 of our employees can be digitally connected. We can already reach more employees directly via the app than via email. The roll out has been supported by technical infrastructure to allow employees without their own mobile device to connect and we have also provided free wifi for employees to connect to with their personal device. Coats Link is used to share both global and locally specific information through targeted channels and it gives employees the opportunity to both post and engage with content as well as translate information at the touch of a button into their own language. Coats Link is modernising and simplifying our employee communications and well as making them more inclusive and secure.

Diversity, Equity and Inclusion (DE&I)

Work on our DE&I strategy continued in 2021. Our DE&I Network calls remained a quarterly fixture in our global event calendar and we also started to connect with our customers on this important issue to drive the agenda together. We were delighted to be ranked 45th in the 2021 Hampton Alexander Report for FTSE 250 companies and first in the General Industries Sector at which point we had 40% women on the Board. This has since increased to 50%.

In 2021 we continued our work on living wage. We have joined the Fair Wage Network and using its data to carry out an annual assessment of our remuneration across the globe. In 2020 we addressed any gaps and this year we assessed ourselves against the benchmark again to ensure we were still tracking at the right level.

We also initiated a data collection project to expand our DE&I data records by asking employees to provide some additional personal information such as race, ethnicity and sexual orientation. Providing additional personal information is completely voluntary. This initiative is part of a journey and will support the development of our DE&I strategy with more transparency.

Another important aspect of our DE&I Strategy is the work we do in the local communities in which we operate. In 2021, nearly 8,000 employees were involved in carrying out more than 200 activities. These varied from supporting our local communications with health and safety initiatives such as supporting Covid protection efforts and empowering women through training programmes.

Looking to the future, as part of our social impact priorities, it is our ambition to provide a workplace where every single employee is free from discrimination, feels respected and is treated fairly and equally. We will also strive to achieve gender parity in all managerial roles, and higher than local labour market representation for all other under-represented communities at Coats locations.

Looking ahead to 2022

In 2022 we will develop our long-term goals and intermediate milestones to help us achieve our social impact priorities.

In addition, we will build on our achievements in 2021 by focussing on a more holistic approach to health, safety and wellbeing based on the four pillars of Physical, Emotional, Financial and Community with interventions in the areas of Prevention, Protection and Education.

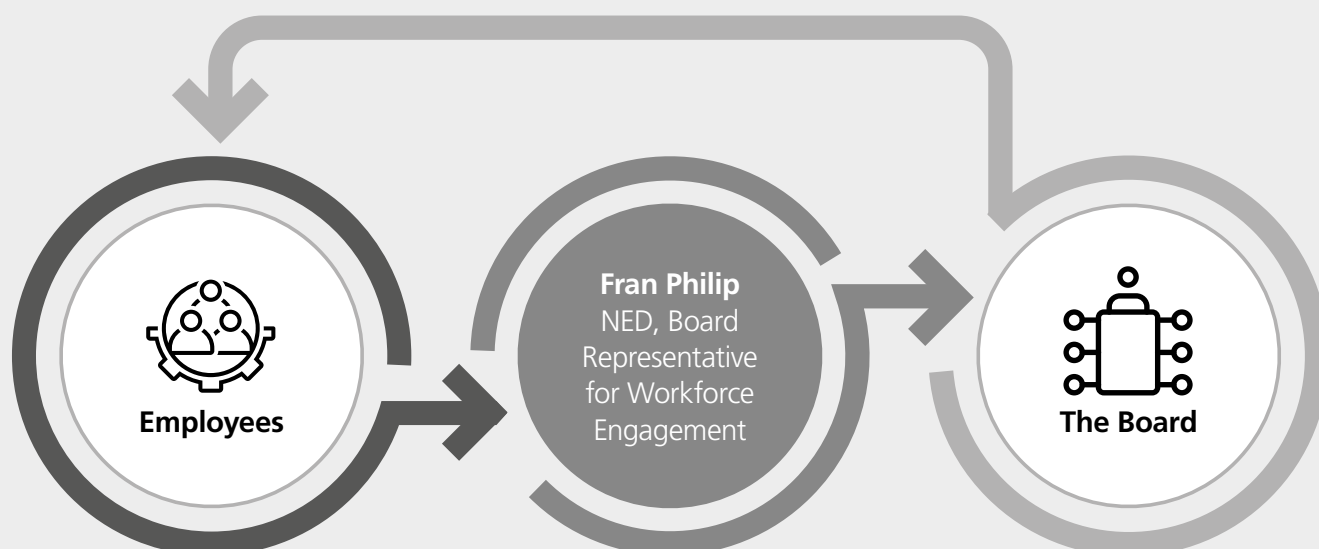
In the area of people development we will continue the journey started in 2021 when we moved our Performance Management process to SuccessFactors by introducing continuous conversations to help us to deliver a higher performing culture. We will also continue to progress two critical capability building projects for the Commercial and Manufacturing teams to provide clarity on 'what good looks like' to drive personal development and measurable business outcomes.

We will continue to mature our Listening strategy through an integrated approach to understanding the overall employee experience in an agile way and we will start leveraging DE&I data to identify and support the relevant initiatives and actions at group and local level.

Board engagement with the workforce

Introduction

Fran Philip was appointed Board Representative for Workforce Engagement in March 2019. In this role Fran attends a programme of events agreed annually with the Chair and Chief HR Officer including meetings with regional managers and making contact with representatives from the workforce. In 2021 virtual meetings continued with the same intensity notwithstanding the impact of Covid, travel restrictions and lockdowns.



The process

- Due to continued challenges of Covid, most meetings were carried out virtually
- Fran had face-to-face meetings in the US with three separate groups of employees
- Fran had two virtual meetings senior representatives of the regions
- Fran hosted seven virtual sessions with 119 employees in 26 countries
- Fran attended our three DE&I Network calls (each were attended by around 200 employees globally)
- Fran summarised her findings to the Board in September and December 2021, as well as to the DE&I Network

Focus during the period

The focus of the employee engagement sessions continued to relate to Covid, although our various regions were all in different stages of the pandemic.

- In Vietnam the conversation focussed on the government lockdown and the speed with which the team managed to transition the Ho Chi Minh site to allow employees to live on site. There was a sense of positivity from the collaboration and resilience shown by the team
- There was general feedback from across the clusters about how the workplace is changing, the challenges for some of working from home and achieving a work/life balance

Actions in response

Looking forward to 2022, in response to the feedback in the employee engagement sessions which showed employees feel safe within our premises and praised our support of families and local communities, we will look to build on the following areas:

- Continue to focus on the small things that make a difference
- Health and wellbeing including nutrition, exercise and mental health
- Community activities

In 2022, Fran will continue her virtual meetings and aim to increase her in person meetings subject to Covid.

Working responsibly continued

Highlights for 2021

- Developed and announced bold new sustainability targets
- Developed and received approval of our Science Based Targets
- Launching new products that align to our circular strategy

Priorities for 2022

- Our net-zero target and roadmap
- Deliver on our 2022 sustainability targets (see page 12-13)
- Accelerate delivery on our energy decarbonisation roadmap

Comparison of top material issues in 2021 and 2019 materiality assessments in ranked order:

2021	2019
Pollution	Environmental compliance
Materials	Pollution
Water	Talent attraction
Energy	Energy
GH Emissions	Water
Employee engagement	Business ethics
Talent attraction	Materials
Environmental compliance	Waste

Sustainability

Sustainability strategy

Having launched our five pillar Sustainability strategy ‘Pioneering a sustainable future’ in 2019 with a range of ambitious targets, in 2022 we announced a further set of challenging targets, including longer term ones around emissions reductions and more sustainable materials. Most of our original targets are focussed on a 2022 horizon so it is appropriate that we are now reviewing our strategy and looking beyond that horizon towards the next challenges we need to address and further raising our ambition.

During 2021 we have updated our materiality assessment (as part of our biennial programme of materiality reviews) and, unsurprisingly, we are seeing increased importance being given to climate-related and social issues, reflecting the twin crises of climate change and the pandemic that have had such a major impact in the last two years. This new assessment followed 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). Shown in the sidebar are the 2021 top eight issues compared to the 2019 materiality assessment. We have assessed the changes taking place and have adapted our strategy by increasing our ambition in some of the key areas. These new commitments were introduced on page 12 and are described in more detail below.

We are also, here and in our stand-alone [Sustainability Report](#), providing an update on progress towards the ambitious targets that we set in 2019.

Also in 2019 we joined the United Nations Global Compact (UNGC) as a Participant, with our Board confirming 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, again, the Board has reconfirmed their commitment to the UNGC Principles and the SDGs and the Company has renewed its Participant membership. We continue to participate in a number of activities organised by the UNGC Network UK and Coats employees participate in a number of working groups within the Network.

As for the last two years, our 2021 [Sustainability Report](#) is our third formal Communication on Progress as UNGC Participants. That document formally renews our commitment and reports 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
- 13 Climate action

Raising our ambition

Using the platform of our participation at the World Climate Summit that took place in Glasgow alongside the COP26 conference, we announced that over the next five years we will invest \$10m in scaling up the development of the green technologies and materials that will accelerate delivery of our sustainability goals. Furthermore, the Coats Innovation Hub – Asia, located in Shenzhen, China, will have a new mission and be re-purposed to focus on the application of biomaterials. Over the long term, Coats aspires to move all products to environmentally friendly materials and chemicals. We have identified four new targets that are aligned with our five existing strategy pillars and further our commitments in key areas. These new targets include:

1. Net-zero

We are committed to achieving net-zero in our value chain by 2050. As a first step towards that we have had our Science Based Targets (SBTs) to 2030 approved and will be reducing our emissions in line with those by reducing energy use, switching to renewable energy sources and switching to recycled or bio-based materials. During 2022 we will be submitting our net-zero roadmap to Science Based Targets initiative (SBTi) for approval. Furthermore, while our SBTs commit us to transitioning to 100% renewable electricity by 2030, which would account for 63% of our total energy, we intent to go beyond this and ensure that 70% of our energy is renewable by 2020.

2. Social impact

We are committed to making further progress across our social agenda. This will include continued focus on diversity, equity and inclusion, workplace health and safety, employee and community wellbeing and supplier social alignment with our practices.

3. Eco materials

Our commitment is that, by 2030, all our products will be made completely independently of new oil-extraction materials such as polyester and nylon. This will be achieved by expanding our programme of switching to recycled materials and increasing the use of bio-sourced materials. We have already launched, in 2021 our first new bio-sourced thread which is a regenerated cellulosic thread produced from sustainably managed forestry materials.

4. Circularity

We will shift increasingly to a circular model for our products and packaging. We will also provide our customers with product and packaging solutions that enable recycling and reuse, and the launch of our new dissolvable thread that assists in garment dismantling at the end of life is one step on this journey.

Our five sustainability pillars

1. Water

Like many parts of the textile industry, water is currently an important resource in our production processes. It is used principally in direct or indirect connection to our dyeing processes. It is the solvent we use for transferring dyes onto fibres and then for rinsing and washing our threads. It is also the means by which we apply heat to the dyeing processes, using super-heated steam. Elsewhere in our operations we use it for applying coatings, for humidification and for chilling. Our aim, in the long term, is to dramatically reduce, or eliminate entirely, the use of water in dyeing, and we are actively involved in developing digital dyeing technology through our investment in Twine. This is one of the promising routes to reducing water use in textile dyeing. During 2021 we have had a Twine dyeing machine in our Innovation Centre in Turkey and have been developing the colour management systems that will allow us to deploy it as a sampling technology in the first instance.

In the meantime we are focussed on reducing our current water use, both by identifying and eliminating any water wastage and by redesigning our processes to require less water. Our ambitious goal is to reduce our water use intensity (litres per kilo of production) by 40% by the end of 2022 against our 2018 baseline. This is a very challenging goal as it came after a 28% water use reduction which we achieved in the period from 2013 to 2018. After a difficult year in 2020 due to pandemic disruptions, we have accelerated progress towards our 2022 target with a number of global working groups, established under our 'Cleaner and Lighter' programme, being dedicated to identifying and spreading best practice from unit to unit. As a result of this our water intensity in 2021 reduced by 22% compared to our 2018 baseline.

We still have a long way to go to reach our 2022 target, but in the last quarter of 2021 our rate of reduction accelerated to 28% so we are in a good position going into the final year for achievement of this target.

2. Energy

We use energy in our operations in two forms: heat energy, in the form of super-heated steam, which is normally generated by the burning of fuels in our boilers, and electrical energy that is mainly used for powering motors to run machines or drive pumps. The dyeing process utilises most of our heat energy, while spinning and twisting operations are heavy users of electrical energy, as is dyeing, both for running pumps and for powering dryers. Overall dyeing is our most energy intensive process and there is an obvious link between the above mentioned activities to reduce water use and a benefit in energy use reduction in dyeing. Our target is to reduce our energy intensity by 7% in 2022 compared to our 2018 baseline. During 2021 we have implemented a pilot programme for extensive metering and dynamic energy management across five major sites and are planning to extend this to additional sites in 2022. We also had a major focus on energy reduction on our Indian spinning sites, the single largest users of electrical energy in the Group, and through focussed team working across all areas to identify and measure savings opportunities a reduction of 9% of energy consumption had been achieved by year end, with further improvements expected in 2022. The work described above in terms of water saving has also had a significant impact in energy reduction as around 50% of our energy is used to heat water, so the savings have impacted both targets. Because of the pandemic, the focus of energy saving activities in 2020 were limited to smaller projects at individual site level rather than global projects, but in 2021 we have seen a significant recovery in energy saving work. Because of these projects we have made good overall progress in 2021 with a reduction of intensity of 6.9% compared to 2018, so we have nearly achieved our 2022 target a year early. Energy saving activities will continue to deliver further reductions during 2022.

Working responsibly continued

Scopes:	Scope and category definitions	% of total emissions in 2019
Scope 1	Emissions from fuels we burn directly (gas, oil, diesel etc)	6%
Scope 2	Emissions from energy we buy from third parties (electricity and steam)	19%
Scope 3	All other upstream and downstream emissions related to our value chain	52%
	Category 1 Emissions from purchased products and services	4%
	Category 3 Upstream energy emissions	7%
	Category 4 Emissions from transport and distribution	12%
	Other Scope 3 emissions	

We also have a commitment under our energy pillar to shift as much as possible of our sources of energy to certified renewables. While 34% of our energy in 2018 came from renewable sources according to our supplier data, only 3% was certified as renewable. We have been using energy contract negotiations to extend the certification cover we have for existing renewable sources and also pursuing new suppliers that are expanding renewable energy supplies in markets that allow that. We have an agreement in place in Mexico that will see us transition to renewable electricity there by the middle of 2022, although the government is showing signs of renationalising the energy market which could void this contract. We are in discussions with developers for off-site renewable electricity supply in Vietnam, Indonesia and the USA.

By the end of 2021, 7% of our electrical energy was certified as renewable. Subsequent to our target setting in 2019 we made the commitment at the beginning of 2021 to develop Science Based Targets (SBTs) that align to the Business Ambition for 1.5°C pathway (under the Science Based Targets initiative (SBTi)) and to achieve net-zero by 2050. During 2021 we developed our baseline inventory and our targets for the 1.5°C pathway and submitted them to SBTi for validation. These targets were approved and published early in 2022. SBTi have also now established their framework for submission and validation of net-zero targets and we will be working on submissions for these during the early part of 2022.

Our roadmap to achieve reductions in our Scopes 1 and 2 are focused on energy and water reduction activities as outlined above, but principally also on the conversion of our Scope 2 energy to certified renewable sources. For Scope 3 the principal routes to reduction in the three categories mentioned in the table above are conversion to recycled materials, transitioning to renewable energy and switching to low or zero carbon transport.

In 2021 our absolute emissions for all three Scopes increased from the 2020 level as our industrial activity increased subsequent to pandemic disruptions in 2020. Our Scopes 1 and 2 absolute emissions were 7% below our 2019 baseline notwithstanding a 5% increase in production. Our Scopes 1 and 2 relative emissions (emissions intensity in kilos CO₂e/kilo of production and tonnes CO₂e/\$million of sales) reduced by 12% and 7% respectively against our 2019 baseline and 7% and 10% against 2020. These reductions have largely been achieved by energy saving activities as there has not been a significant transition yet to renewable energy sources. Scope 3 absolute and relative emissions increased mainly due to logistics challenges during 2021 leading to higher transport emissions and an increase in the upstream energy conversion factors. We expect to see the shift to recycled raw materials and the switch to renewable energy sources having an increasing impact on Scope 3 emissions in the near future.

The full detail of emissions both absolute and relative is shown below.

Absolute Greenhouse gas emissions

Thousands of tonnes of CO ₂ e	2021	2020	2019 ¹
Scope 1 Direct ²	62.7	51.3	64.6
Scope 2 Indirect ³			
Location based	216.1	186.2	235.3
Market based	190.7	165.9	209.2
Scope 3 Value Chain ⁴	891.3	671	849.2

- 1 2019 data includes Pharr HP (acquisition completed 11 February 2020) numbers to provide a like-for-like comparison.
- 2 Direct emissions relate to the use of fuels to generate energy on group facilities. This is mainly the use of oil and gas to generate heat in the form of steam for use in processing, but it also includes some on-site generation of electricity using diesel or gas fired generators and the use of diesel, petrol and LPG for on-site transport.
- 3 Indirect emissions relate mainly to the purchase of electricity from third party suppliers. Most of this is electricity that is taken from local grids, but does include some on-site generation of electricity or steam from third party suppliers.
- 4 Scope 3 value chain emissions cover all other emissions that occur throughout our product and business value chain. This includes the cumulative emissions to produce our raw materials and capital equipment and installations, product and people transport at all stages, downstream processing and consumer use of our sold products and treatment for our waste and our products at the end of their life.

Scope 1 and 2 emissions from our five UK office locations in 2021 were 59 tonnes CO₂e and represented 0.02% of our total global emissions.

Greenhouse gas emissions intensity¹

Greenhouse gas emissions intensity per unit of production (kg CO₂e per kg of finished product)

	2021	2020	2019 ³
Scopes 1 & 2 ²	2.64	2.84	2.99
Scope 3	9.27	8.78	9.26
Total	11.91	11.62	12.24

Greenhouse gas emissions intensity per sales value (tonnes CO₂e per million \$ sales)

	2021	2020	2019 ³
Scopes 1 & 2 ²	169	187	182
Scope 3	593	577	564
Total	761	764	746

1 We have used these two ratios for several years. The first uses volume of finished goods production in tonnes and hence relates directly to the industrial activity that drives emissions, while the second uses group turnover and hence relates to overall commercial activity.

2 Figures are calculated on a market basis for Scope 2 emissions

3 2019 data includes Pharr HP (acquisition completed 11 February 2020) numbers to provide a like-for-like comparison.

Full details on emissions of all reportable greenhouse gas emissions and details on the reporting methodology used for the above figures can be found in our [Sustainability Report online](#).

Energy Consumption

Million kWh	2021	2020 ¹	2019 ^{1,2}
Direct (Fuels)	319.7	260.3	317.5
Indirect (Electricity, Steam)	481.1	409.2	513.9

1 Figures for 2020 and 2019 have been restated compared to the 2020 report as some purchased steam was previously incorrectly classified as direct energy

2 2019 data includes Pharr HP (acquisition completed 11 February 2020) numbers to provide a like-for-like comparison.

Energy consumption in our five UK office locations in 2021 was 0.312 million kWh and represented 0.04% of our global energy consumption.

The following methodology is used for calculating emissions and energy consumption:

Boundary	All emissions from operating companies that are consolidated in the Group financial statements are included. Operational joint ventures are included based on equity share.
Scope 1	Fuel consumption data is collected from all units monthly, based on metered or invoiced consumption converted into kWh. This is converted into emissions using DEFRA gross calorific value conversion factors published each year.
Scope 2	Electricity or steam purchase volumes are collected from all units monthly. All electricity kWhs are converted using IEA country level conversion factors for the location based data. For the market based data certified renewable electricity purchased is not included and the remainder is converted at the same IEA country factors.
Scope 3	Scope 3 emissions are calculated annually using multiple sources for data (including suppliers, lifecycle assessment data providers and industry data sources). Each category is calculated with the best available set of data sources, and is consistent over the 3 reported years.

More detail on methodology is available in our [Sustainability Report online](#).

Working responsibly continued

3. Effluent

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. Work on upgrading treatment processes and, crucially, ensuring that they are run reliably and consistently has continued during 2021, and thanks to this 82% of our effluent was compliant by the end of 2021 (74% in 2020). This figure combines treated effluent and sludge compliance as appropriate according to the ZDHC standards. Our Cleaner and Lighter programme has been instrumental in continuing to make progress in this area and as part of this process we are not only looking at ensuring adequate treatment of post dyeing effluent, but also reducing the amount of chemicals used in the dyeing process as that reduces the treatment load in the effluent plant. We will continue to pursue our goal of 100% compliance during 2022.

4. Social

For this pillar of our Sustainability strategy please refer to the Working Responsibly, People section on page 26.

5. Materials

Our target is to transition all of our premium polyester products to recycled polyester raw material by 2024. We have continued to make good progress towards this goal in 2021 with 19% of our premium sales coming from our EcoVerde range of recycled products, up from 13% in 2020. The supply of high quality recycled fibres continues to be challenging, and is the main factor determining the rate of conversion. Prior to 2021 all of our material came from Japanese waste collection and processing sources because of the high quality of material achieved. We have now successfully expanded our supply chain to include materials from China and will be looking to qualify further sources of supply in 2022 and beyond. We are also initiating work on chemically recycled polyester from textile waste as we consider this to be an essential component in the recycled and largely circular supply chain of the future.

Waste reduction is our other target, with a goal of reducing by 25% in 2022 from our 2018 baseline. Having completed the introduction of a new and comprehensive waste reporting catalogue in 2020 we have focused in 2021 on the high volume waste areas, most of which are not related to our products themselves but are packaging materials from suppliers and sludge from effluent treatment plants. Through our Cleaner and Lighter programme we have a number of workstreams focused on reductions in these areas. During 2021 we have reduced our waste percentage against our 2018 baseline by 3%, and expect to see this reduction accelerate in 2022 as the programmes continue to deliver.

Sustainability management

Sustainability at Coats is led by the Board and the creation of a new Board Sustainability Committee from the start of 2022 reinforces this involvement. Strategy development and monitoring of action plans at an executive level 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 three members of the GET, the Chief Legal & Risk Officer and Group Company Secretary, the Chief Supply Chain Officer 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 sub-teams. 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 sub-team 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 regular training was last done in 2020, and was delivered to over 4,200 employees during that year and will be repeated during 2022. 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 and our 2021 disclosures are included on page 38. 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. We will be following closely, during 2022, the development of the newly formed International Sustainability Standards Board (ISSB) in order to be able to adopt the recommendations as appropriate at the earliest opportunity.

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.
	Speak Up 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 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.

	Policy	Description
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.
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.
	Climate Change Policy	We are committed to doing what we can to limit the impact of climate change and will always follow the scientific consensus on future impacts in assessing how to address this challenge.

Our climate disclosures

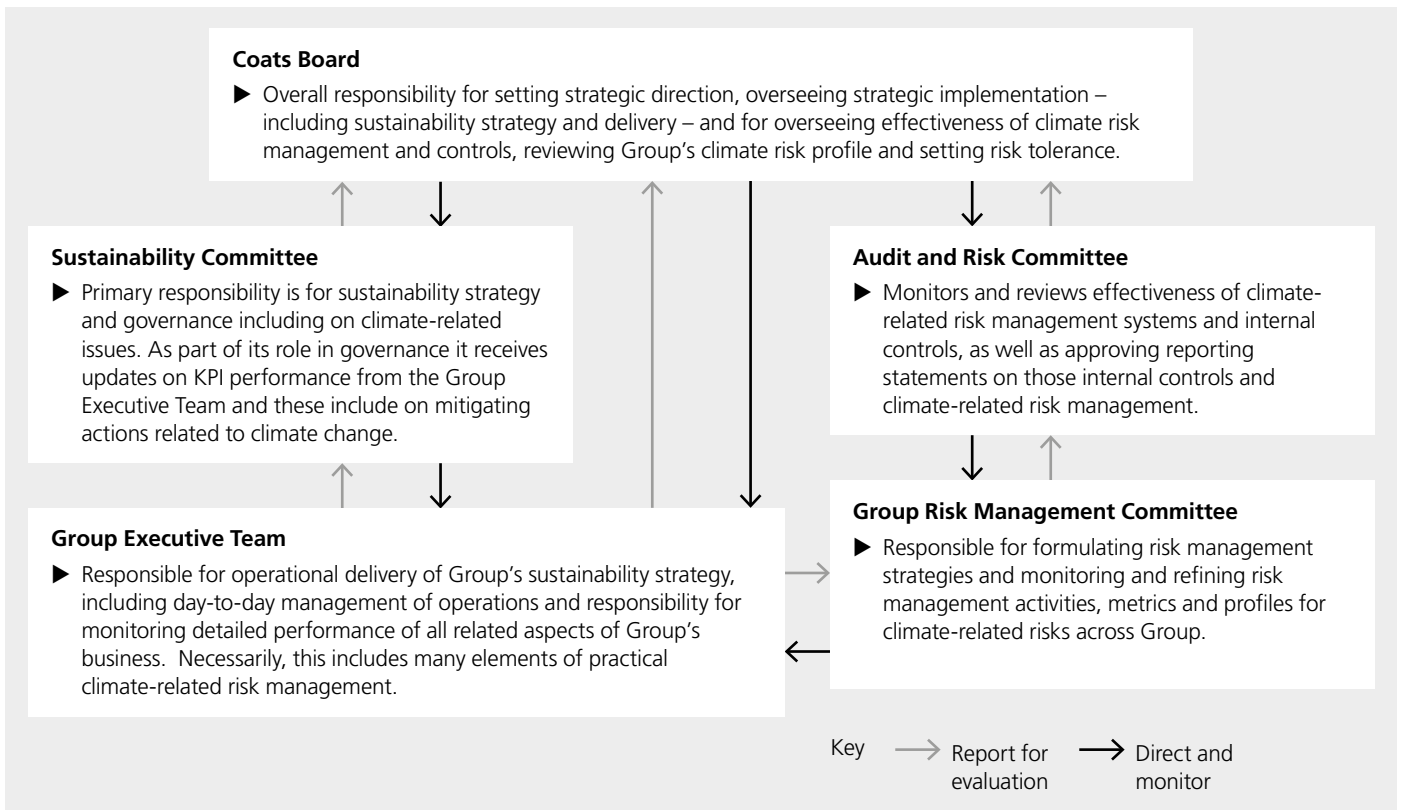
Taskforce on Climate-related Financial Disclosures (TCFD) report

Coats Group plc has complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures. We started working on TCFD disclosures in 2019 and during 2020 we developed Board and management governance structures and completed our first iteration of scenario risk analysis by developing three scenarios based on the Shared Socioeconomic Pathways (SSPs) endorsed by the Intergovernmental Panel on Climate Change (IPCC) and used in the development of the Sixth Assessment Report on climate change. The three scenarios we built are shown below.

CO ₂ e emissions level	SSP used	Scenario name	Global Temperature increase over pre-industrial levels			
			2030	2045	2070	2100
Low	SSP1	Sustainability 'Taking the Green Road'	1.47°C	1.56°C	1.49°C	1.35°C
Medium	SSP3	Regional Rivalry 'A Rocky Road'	1.52°C	2.03°C	2.91°C	4.07°C
High	SSP5	Fossil Fueled Development 'Taking the High Road'	1.60°C	2.25°C	3.50°C	5.05°C

For each of these scenarios we modelled the physical impacts on our operations and supply chain and looked at the risks and opportunities that might occur, focusing on 2030, 2045 and 2070 horizons. During 2021 we have taken the risks and opportunities identified in that first iteration and explored the likely financial implications. Further work on this will continue during 2022 and beyond, as we enhance our analyses. The first full set of TCFD recommended disclosures is shown below.

Coats governance structure for climate-related risks and opportunities



Governance

a) Describe the board's oversight of climate-related risks and opportunities.

The Board of Directors is ultimately accountable for climate related risks and opportunities. The Board receives regular updates from the Group Executive Team (GET) and from relevant Board sub-committees. The GET is responsible for operational delivery of the Group's sustainability strategy, including day-to-day management of operations and responsibility for monitoring detailed performance of all related aspects of the Group's business. Necessarily, this includes many elements of practical climate-related risk management. Two Board sub-committees have important roles to play in managing climate-related risks and opportunities. The newly established Sustainability Committee primarily oversees sustainability strategy and governance including on climate-related issues, and in this role it receives updates on KPI performance from the GET including on mitigating actions related to climate change. The Audit and Risk Committee monitors and reviews the effectiveness of climate-related risk management systems and relevant internal controls, as well as approving reporting statements, such as TCFD disclosures, on those internal controls and climate-related risk management.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Group Executive Team (GET), led by the Group Chief Executive, is responsible for operational delivery of the Company's sustainability strategy, including day-to-day management of operations and responsibility for monitoring detailed performance of all related aspects of Group's business. Necessarily, this includes many elements of practical climate-related risk management. Progress on agreed actions are reported directly to the Board, the Sustainability Committee and the executive Group Risk Management Committee (GRMC) as appropriate. Management of the specific climate related risk management processes lies with the GRMC, which is responsible for formulating risk management strategies and monitoring and refining risk management activities, metrics and profiles for climate-related risks across Group. The Head of Sustainability is responsible for the delivery of climate-related risk assessment work which is reported into the GET and the GRMC where it is evaluated and decisions on proposed strategy changes and action plans are discussed prior to Board endorsement. He convenes a cross functional team to assess the risks and opportunities. The cross functional team includes representation from supply chain, commercial and financial functions. Monitoring of progress on agreed actions is reported to the GET on a bimonthly basis.

Risk Management

a) Describe the organisation's processes for identifying and assessing climate-related risks.

As noted above, the company has established a scenario-based approach to assessing climate-related risks. Three scenarios have been developed using IPCC Shared Socioeconomic Pathway (SSP) data, supplemented by WRI Aqueduct data and climate predictions that are site specific to company locations. A cross functional team works through the scenarios and timelines, envisaging the future described in the scenario and explores all the potential impacts that it could have on the business. These are then distilled down into identified risks and the team sets about building a narrative of how each risk could manifest under each scenario and timeline, both at a wider business model level and at a site specific level. Assessment of the financial impact of the risks is done to identify those that could have a material impact on the business. The company uses an external regulatory register, Enhesa, to identify current and potential climate-related regulatory issues and these are taken into account in the risk assessment.

Our climate disclosures continued

<p>b) Describe the organisation's processes for managing climate-related risks.</p>	<p>The nature of climate risks and opportunities is that they are long term and themselves change relatively gradually, unless there is a substantive change in the scientific consensus such as through a new IPCC report that requires urgent reconsideration of the impacts on our scenarios. There are short terms mitigating actions that are identified for immediate action, and these address both risks that have a financial impact and those that don't. There are other potential mitigating actions that can be actioned at a suitable time in the future depending on how climate change develops compared to our scenarios. The immediate agreed mitigating actions are reported to the GRMC on a quarterly basis but they also form part of our company strategy and are built into operational plans for the year and are managed through the GET on an ongoing basis. The Board Sustainability Committee provides oversight on a quarterly basis. An example of this in practice is the action plan agreed to commit to Science Based Targets which was, in part, a mitigating action to manage transitional customer expectation risks. The GET and the GRMC have both reviewed progress towards submission on a regular basis up to the targets being approved in early 2022.</p>
<p>c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.</p>	<p>Climate change has been identified as a Principal Risk within the company's risk management system. This means that it is a permanent item for review and assessment at regular, quarterly GRMC meetings and that the Board reviews it as a risk on at least an annual basis. Through this mechanism climate related risks are fully integrated into the company's risk management system. In addition to this the Board reviews key sustainability KPIs on a monthly basis including KPIs relating to climate issues, where appropriate.</p>

Metrics and Targets

<p>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.</p>	<p>The company measures Scopes 1, 2 and 3 emissions. To manage the principal emissions reduction opportunities within these it measures the electricity source mix and the amount of certified renewable electricity within that. It also measures energy and water intensity metrics as these are both contributory to emissions reductions. It measures the sales growth of recycled materials and the percentage they represent of all sales, and the sales growth in light-weighting products.</p>
<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>	<p>Scopes 1, 2 and 3 emissions are disclosed separately in this report and, in more detail, in our Sustainability Report (Link). The principal risks related to these emissions are the ones that could endanger delivering on the company's targets for reduction in line with the 1.5°C Pathway and Net-Zero by 2050. The most material of these risks are inadequate opportunities to transition to renewable electricity and lack of reliable supply of recycled raw materials, and the company has robust programmes to manage these risks.</p>
<p>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p>	<p>The company has developed proposed Science Based Targets which have been validated and approved by Science Based Targets initiative. These commit to emissions reductions of Scopes 1, 2 and 3 emissions in line with the 1.5°C Pathway, and are crucial in managing the risk of not meeting customer expectations. The wording of these targets is as follows: Coats Group plc commits to reduce absolute scope 1 and 2 GHG emissions 46.2% by 2030 from a 2019 base year. Coats Group plc also commits to increase annual sourcing of renewable electricity from 5% in 2019 to 100% by 2030. Coats Group plc further commits to reducing absolute scope 3 emissions 33% within the same timeframe.</p> <p>The main lever for Scope 3 emissions reductions is the transition to recycled materials and the company has announced a target to be using no new oil-based materials by 2030. The first milestone on this is the long-established goal to transition all premium polyester to recycled raw materials by 2024.</p>

Strategy

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

In general terms the transitional risks relate to our low carbon scenario and have a greater short term potential impact while the physical risks are significantly greater in the high carbon scenarios and increase in their potential impact over time. In determining the materiality of risks and opportunities we have taken into account the absolute magnitude of the financial impact, the level of future certainty and the horizon in which the impact manifests and the relationship of the impact to the life of any impacted asset.

Transitional Risks

Risk	Short term (<10 years)	Medium term (~25 years)	Long term (~50 years)
Failure to meet customer expectations in terms of transitioning to a low carbon model and thereby losing sales.	At the time of completing our initial scenario analysis work in 2020 this was classified as a substantial risk, but since then the actions taken by the company have effectively mitigated this risk. It will continue to be monitored as a risk in the future as failure to deliver on our emissions reduction targets and to develop and launch new low carbon products and processes would immediately raise the profile of this risk.	The potential for this risk will continue over this horizon as brands continue to work, with their supply chains towards a net-zero target by 2050, but as in the supply chain, the risk for Coats is failing to delivery on the strategy we have put in place and therefore this is not seen, today, as a significant risk.	No identified risk.
Introduction of carbon taxes leading to increased energy prices.	Our low carbon scenario includes the assumption that carbon taxes will necessarily be one of the levers used to achieve rapid de-carbonisation of energy and industrial products and processes. This is unlikely to be an issue under the higher carbon scenarios.	We anticipate the carbon taxes will continue to be an important lever on the road to net-zero, but the likelihood of them having to increase is probably low as the scale advantages in low carbon energy should, by this time, be well established. Therefore our scenario models a high initial (short term) tax and a drop in tax in subsequent horizons.	No identified risk.
Inability to source sufficient renewable energy to meet emissions reduction targets.	Energy market regulatory challenges still exist in many of the countries in which we operate, and these can make the transition to renewable electricity difficult or impossible at the moment. We have also seen cases of governments stepping back from delivering on the regulatory changes that they have committed to, so there are uncertainties around our ability to fully transition. We assess this risk as the alternative cost of buying Energy Attribute Certificates (EACs) to cover our requirements where we cannot gain access to certified renewable energy itself.	The potential cost impacts of sourcing EACs will continue, but we expect that the regulatory hurdles that lead to this requirement will have diminished substantially in this horizon as more countries establish functioning renewable energy markets.	No identified risk.

Our climate disclosures continued

Transitional Risks continued

Risk	Short term (<10 years)	Medium term (~25 years)	Long term (~50 years)
Inability to obtain sufficient recycled raw material to enable full transition of product range to lower carbon footprint products.	When we completed our initial scenario analysis work in 2020 the supply of high tenacity recycled polyester fibre was constrained and was preventing us from achieving a faster transition from virgin to recycled polyester. Since recycled polyester has a roughly 40% lower emissions footprint than virgin fibre this is a risk in terms of achieving our emissions reduction targets. This supply constraint has eased as we have managed to expand the number of approved suppliers considerably in the last 18 months and currently there is no supply constraint on our growth of recycled produce sales and the growth is dependent on customer dynamics. With the aid of external consultants, we have also established that the number of projects underway to increase the supply of recycled polyester for the textile industry in general will mean that supply will consistently exceed demand beyond 2025 and that therefore for the horizon we are looking at here this is not a material risk.	No identified risk.	No identified risk.

Physical Risks

Risk	Short term (<10 years)	Medium term (~25 years)	Long term (~50 years)
Increase in flood damage risk, in a few Asian units.	We have made extensive use of the World Resources Institute Aqueduct tools to model water related issues under our different scenarios in all of our operations. We have established the current baseline for flood risk in all of our units, both for riverine and coastal flooding, and assessed how that changes in different scenarios and timelines. While in some locations the riverine flood risk diminishes, there are others where, by 2030, we can start to see an increase in risk that, under the higher carbon scenarios, accelerates thereafter. Coastal flood risk either remains static (for those units not exposed to it) or increases, but not substantially in this horizon.	Under the higher carbon scenarios we see an increase in both riverine and coastal flood risks in this horizon. In our low carbon scenario the risks remain relatively flat. Most of these increased flood risks occur in Asian units, with Indian and Bangladesh units being most exposed to riverine flooding, with Chittagong, Bangladesh being the only major plant with a relatively high exposure. Shenzhen, China, is the unit most exposed to increased coastal flooding risk while some other units in Bangladesh and Vietnam also appear to be at growing risk in this horizon, and we will be doing more granular work on understanding the nature of these risks during 2022.	Riverine and coastal flood risks will continue to increase in the high carbon scenarios. Chittagong, Bangladesh continues to be at the highest risk for a major plant, with risks also growing in Dakar, Bangladesh and Hanoi, Vietnam as well as for a number of smaller units in India. Shenzhen, China continues to be the unit at most risk of coastal flooding, while the increasing risks in Bangladesh and Vietnam will be explored further as for the medium term horizon.

Physical Risks continued

Risk	Short term (<10 years)	Medium term (~25 years)	Long term (~50 years)
Disruption of water supply in some units.	We have been using the Aqueduct tool for some years to assess water stress at all of our locations and have used this to identify locations where the high level of water stress might lead to future disruption of water supply. There are no significant short term risks identified.	Our high carbon scenarios would see the risks of water stress increasing and extending to additional units during this time horizon. The highest risks for major plants are in our Pakistan plants. Turkey, Egypt, Brazil and Sevier USA are also major plants with increasing risks. Increased water recycling would be required across these and some other smaller units to ensure continued access to water.	High carbon scenarios see continued growth of water stress in the same locations as before with the same need to increase water recycling levels to prevent shortages.
Possible need for plant relocation in a small number of locations most impacted by high heat.	No identified risk.	Under our different scenarios we have modelled the number of extreme heat days that are likely to occur in our different locations. We see the potential for high heat days (days over 35°C) to be happening sufficiently frequently in a small number of units in Thailand, India and Pakistan for this to be an area of growing concern, though probably not to the extent that would require plant relocation.	In the high carbon scenarios the number of extreme heat days continues to climb with Thailand, India, Pakistan and Vietnam all being areas of concern. It is possible that during this horizon we reach the point at which some planned realignment of plant capacities and withdrawal from extreme heat locations begins to become advisable. We anticipate that this would happen in conjunction with realignments by our customers.

Opportunities

Opportunity	Short term (<10 years)	Medium term (~25 years)	Long term (~50 years)
Growth in light-weighting products aimed at transport markets.	Several years ago we identified an opportunity to build a new business segment in producing lightweight components for the transport industry, especially in automotive. The need to reduce emissions from transport and to extend the range of electric vehicles means that the demand for light-weight components will continue to grow as it spreads progressively from luxury to utilitarian models.	Light-weighting opportunities will continue to spread across the transport sector, but probably at a reduced rate of growth.	It is difficult to anticipate this opportunity on such a time horizon.
Increased market share with apparel and footwear brands.	While loss in market share with brands was identified as a potential climate-related risk, building market share on the back of meeting their expectations for supply chain partners that will help them to cut their Scope 3 emissions is a clear opportunity and one that some leading brands have already made explicit to their partners.	Consolidation of brand supply chains around suppliers that deliver on climate change commitments will continue, but at a reduced rate.	It is difficult to anticipate this opportunity on such a time horizon.

Our climate disclosures continued

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

The company has assessed the risks and opportunities above and has attempted to quantify the scale of these in financial terms under the different scenarios and time frames and, using this methodology, has created a range of financial impacts per issue before applying any mitigation actions. The company has then looked at mitigating actions and the impact that they can have on the potential risks, and has thus created a post-mitigation range of financial impacts per issue. At the moment the assessment of mitigation actions has focussed on transitional risks as these are the shorter term risks. Physical risk mitigation from extreme weather has to be addressed at site level as that is where the physical risks are manifested and this will require more detailed analysis of possible mitigating options – for the moment, therefore, we have assumed that there is no mitigation possible for those physical risks, which is a worst case scenario. The one exception to this is the risk of water shortages due to increased water stress and this is detailed below.

The transitional mitigation actions proposed have also been analysed in terms of the potential costs. Most of them do not incur any additional cost to the business (for example developing Science Based Targets), and where there is some additional cost then that is immaterial. Most of the mitigating actions are already agreed within the company strategy and are currently in various stages of implementation.

The principal opportunities have also been assessed and quantified in the same way as the risks, with a range of possible outcomes according to the scenarios and timeframes. Actions are already underway to ensure that the business is able to make best use of these opportunities and the activities related to these are described elsewhere in the strategic report.

As noted above the risk of loss of sales from failing to meet customer expectations has currently been fully mitigated under the company's climate strategy and so is not seen as a material financial risk at this moment. This risk will be reassessed continuously as any failure to deliver on the company climate strategy will raise the possibility of this risk becoming material.

The most significant financial risk is of carbon taxes. Under our low carbon scenario, SSP1, these could be introduced in the next few years and increase rapidly through to 2030 after which they would stabilise. Our high carbon scenarios, SSPs 3 and 5, don't envisage there being any carbon taxes. Under SSP 1 we expect that the range of carbon taxes could be between \$80 and \$160 per tonne of CO₂e, and we anticipate that this would apply to our Scopes 1 and 2 emissions. Clearly this will only happen if there is the sort of global political consensus on tackling climate change required to convert aspirations into actions, which has not so far been the case. Without remediation, and hence based on current emissions levels persisting, the potential for carbon taxes under scenario SSP1 would see an additional annual cost of between \$24m and \$48m by 2030. Post-mitigation, where mitigation is taken as delivery of our Science Based Targets for emissions reduction, this annual cost increase would range from \$13m to \$26m. We see the pre-mitigation potential costs remaining broadly constant through 2045 and 2070 while the post-mitigation costs would drop to immaterial levels by 2045 and beyond.

Not being able to transition to renewable electricity as quickly as necessary means that there is a risk of having to purchase EACs to meet emissions reduction targets. We have evaluated this cost based on a weighted basket of current EAC prices across some of our units and we consider that this financial risk is currently immaterial across all time horizons. We recognise that prices for EACs, which currently have a wide range (from around \$0.25/MWh to \$13/MWh), might increase or decrease in the coming years and we will need to continue reviewing this risk in case an increasing price trend makes this risk material. We consider anyway that this risk to be largely remediated by our current plans for transitioning to renewable electricity, though in some significant countries (eg China) the regulatory framework to allow this is not yet in place, so there are some unknowns in terms of the speed of transition.

Analysis of the risks from extreme heat and riverine floods has shown that these are immaterial risks through 2030 and 2045. Further work is needed to confirm the level of risk in 2070 but on current assessments this is also immaterial.

In the case of coastal flooding risk this is focussed in a small number of units and even under the worst case, high carbon, scenario it has been assessed as immaterial across all time horizons. As noted above additional work will be done in 2022 to better assess at a more granular level the risks across some of the units that have been identified as being at risk in 2045 and 2070.

The risk of water shortages in terms of plant stoppages is very difficult to quantify, so the approach taken here is to assess the potential capital and operational costs of the effluent treatment plant upgrades that would be necessary to recycle enough water to mitigate this risk. We have assessed this across all units and the potential capital implication is consistent with the rate of investment that we have been making in effluent treatment plants for a many years now and so is seen as an immaterial additional cost. The additional operational costs are also immaterial.

In terms of the opportunities, the potential additional operating profit in 2030 ranges from around \$45m to \$70m. This comes from increased market share with apparel and footwear brands and growth in sales of our light-weighting products, mainly into the transport market. To achieve this growth we anticipate a capex cost of between \$6m and \$9m in 2030 (in the light-weighting opportunity the assumption is that the company will use manufacturing partners). Looking beyond 2030 at this stage is difficult, but continued growth in these segments will continue to be an opportunity.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The short term risks are principally transitional risks related to the company's low carbon (SSP1) scenario. The strategy that the company has in place to implement Science Based Targets for emissions reduction, to transition to renewable electricity and to convert to recycled materials is a robust response to these risks. Regulatory access to renewable electricity in some countries and ongoing growth in supply of recycled material are both key uncertainties, but the company has in place very active programmes in both of these areas to mitigate these risks. The company is also actively developing the main new business opportunity in the short term. The medium to long term risks are mainly physical risks more closely associated with higher carbon scenarios (SSPs 3 and 5). The nature of these risks is that they are location specific. Our robust business continuity plans which are regularly updated and refined will assist in ensuring that we have robust contingency plans in place. Nevertheless, the company has not yet developed climate-related unit-specific mitigation plans and these will be addressed in the near future as part of the ongoing management of these risks. Currently our overall assessment indicates that the opportunities are of the same broad order of magnitude as the risks and are linked to the same scenarios so are well balanced.

Principal risks and uncertainties

Effective risk management is essential to smartly and prudently achieve our strategic goals

Overview

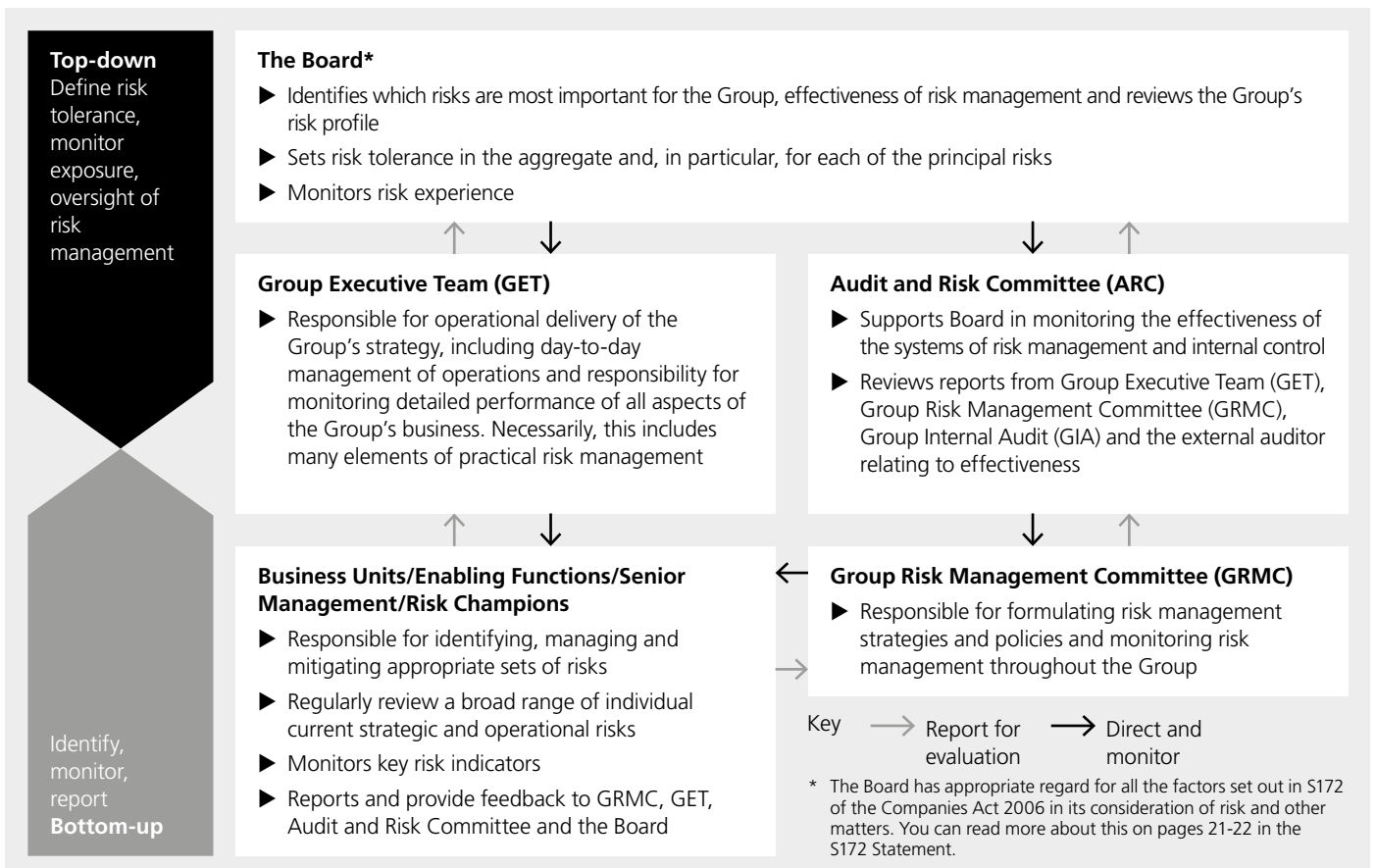
Risk is inherent in all business activities, and as a global industrial manufacturer, we maintain a comprehensive risk management framework that serves to identify, assess and respond to such risks. Our approach is focussed on the timely identification of risks and related opportunities, combined with 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 ongoing 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 and the opportunities associated with those risks are appropriately leveraged.

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 whilst the pandemic persists, and with added pressure from inflation and as global supply chains are squeezed. In order to address those risks as swiftly and efficiently as possible, the membership of the Group Risk Management Committee has been extended to include senior operational executives from each of the geographic regions across 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 climate change, cyber security, effluent treatment, specific people-related issues etc.



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 2021, 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 reinforce our ethical culture in order to mitigate against potential scenarios which could put the organisation at risk. Employees are proactively encouraged, through training, discussions, recognition and other means, to act with integrity and to question any unethical behaviour.

During 2021, the Company also procured an externally hosted whistleblowing hotline to complement the robust existing arrangements that were already in place. Ethics training has continued throughout 2021 and we have continued to broaden that training, making it ever more inclusive. As we became accustomed to a remote working environment, we took ever-increasing advantage of the technology we have and continued to leverage the opportunities of remote working. We increased the number of training sessions, and since there was no necessity to travel, we continued to extend training to more people across the business. We pursued our programme of ‘Doing the Right Thing’ with the use of different forms of technology. We used tools such as Coats Link (the Group’s new employee mobile app) and Microsoft Teams to maximise the effectiveness of our communications with our workforce which drove greater understanding, engagement and transparency amongst employees across the Group. See page 78 for further information on the Board’s role in monitoring culture and ensuring alignment with strategy, values and purpose.

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. The Board Directors oversee the management and mitigation of the principal risks, while senior executive management oversee the management and mitigation of the key risks.

Principal risks are overseen by Board Directors and key risks are overseen principally by senior executive management. 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 S172 on pages 24-25.

During 2021, 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 2021, the Board and the ARC also reviewed the effectiveness of the Company’s risk management and internal controls. A significant

number of recurring reviews of 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 Health & Safety, Sustainability, People, Performance, M&A and legal and environmental matters. The Board also received updates on regional and unit-level risk governance, management and mitigation as part of the regional deep-dive presentations from India, Bangladesh, Vietnam, China, EMEA, North and Central America, and South America.

The identified principal and key 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, the risk of internal fraud, sustainability-related risks and IT/cyber security controls.

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/regions in areas such as the frequency and adequacy of the regional risk management committee meetings, minutes of the meetings and following through

Principal risks and uncertainties continued

on actions contained in the local risk register. Periodically, a horizontal scanning of risks is also conducted and is discussed as a standing item in the GRMC. GIA also reviews how risks are identified and mitigated across various clusters in the organisation and provides suggestions for improvement as required. This provides an assurance that risk management activities are carried out regularly and consistently 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 focussing on the risks that may impact the strategic objectives of Coats, the Board has defined 11 principal risks, as well as a number of additional key and emerging risks within that Group Risk Register. These risks, and the steps we have taken to mitigate these risks, are detailed on the following pages. 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:

CHANGE OF RISK DESCRIPTION

- Mergers and Acquisitions (M&A) scale ambition risk** has been re-named **M&A programme ambition risk**, in light of the Group's increasing ambition in the scale of its acquisition programme and its ability to source, satisfactorily acquire and integrate suitable targets.
- Talent and capability risk** has been changed to: **Risk of failure to attract, retain and develop talent and capability**, given business changes, growth in new areas and labour availability challenges.
- Economic and geopolitical risk** arising from political, economic and demand uncertainty – across both key Asian and developed markets – including risk to free trade conventions has been changed to: **Economic and geopolitical risk** arising from political, economic and demand uncertainty – across both key Asian and developed markets – including risk to free trade conventions as well as global inflationary pressures.
- Environmental non-performance risk** given changing standards and increasing scrutiny resulting in disruption of existing business, fines and/or reputational damage has been changed to: **Environmental non-performance risk** given changing standards, increasing scrutiny, customer and investor demands and expectations and scale of Group's own self-imposed standards and ambitions, creating commercial, financial and reputational risks as well as opportunities.

PROMOTED

Risk of supplier non-performance and/or unavailability and/or price increases of raw materials, labour and freight is promoted to being a principal risk with an emphasis on the freight/logistical challenges element given, in particular, the widespread freight and logistical challenges. Consequently the risk trend for this risk has also increased from stable to increasing.

DEMOTED

Pensions risk has been demoted from a principal risk to a key risk, given that the latest valuation has been completed and signed off with no amendment in deficit recovery payments and with additional robust hedging strategies in place. See page 58 for more information.

FROM STABLE TO INCREASING

Risk of failure to attract, retain and develop talent and capability trend has increased from stable to increasing, in light of the heightened labour availability challenges in various parts of the world.

FROM INCREASING TO STABLE

Mergers and Acquisitions (M&A) programme ambition risk trend has decreased from increasing to stable, in light of the robust process being followed under the regular oversight of the Board.

FROM INCREASING TO STABLE

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 has decreased from increasing to stable, due to the very close ongoing attention and actions taken by the management team under the regular oversight of the Board.

FROM INCREASING TO STABLE

The risk trend for **Health & Safety** has decreased from increasing to stable, in light of the actions taken by the Executive team and the pattern of the various metrics presented to the Board regularly throughout 2021.

Link to strategy



1. Profitable sales growth



2. Continuing to strengthen the core



3. Value creation

Risk trend



Increase





Stable






Decrease

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 the management and mitigation of these principal risks, as well as the appropriateness of this list and the constantly changing broader risk environment, under ongoing review.





Principal risk	Action/mitigation
1. STRATEGIC	
<p>M&A programme ambition risk in light of the Group's increasing ambition in the scale of its acquisition programme and its ability to source, satisfactorily acquire and integrate suitable targets.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>Originating and executing M&A opportunities is a key focus for the Group. A key component of our strategy is value creation and very carefully considered and disciplined use of capital to fund inorganic opportunities to build scale and acquire new capabilities, technology and talent. The Board has approved a set of criteria to source and evaluate acquisition opportunities, aligned to Group divisional strategy. These criteria include both financial parameters, such as revenue growth and EBITDA margins, and non-financial parameters, such as innovation and sustainability credentials. All M&A projects are overseen and closely monitored by the Board and by senior executive management. 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 focussed project management resources during both execution and integration phases.</p> <p>Specific M&A risks and mitigations include failing to achieve required financial returns by either overpaying for a target or under-delivering on the business case. This risk is managed by deep sector knowledge brought by executive management, an experienced M&A team which leverages specialist external advice on valuations, and focussed diligence to satisfy the Board that the commercial fundamentals are robust.</p> <p>The risk of failing to fully integrate the target company into the Group is managed by a dedicated integration management office (IMO), involved from the diligence phase onwards and leveraging internal and external diligence resources, to facilitate successful integration of the target company. A key focus of the IMO is enabling delivery of the business case, whilst managing people and culture change to ensure sustained success.</p> <p>The risk of failing to capture synergies is managed by ensuring that synergy cases are robust and achievable, and are reviewed by internal and external experts. The IMO plays a key role in ensuring the integration allows for effective synergy delivery in line with the business case. In addition to a well-resourced acquisitions team, we leverage wider internal resources and external advisers in specialist areas such as valuation, financing, due diligence and integration. Post-completion/integration reviews are also conducted to ensure that learnings are identified and built into subsequent projects as part of a continuous improvement process. Significant work has been completed in 2021 and we have a robust pipeline of opportunities.</p>



Principal risks and uncertainties continued

Principal risk	Action/mitigation
<p data-bbox="103 622 395 790">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.</p> <p data-bbox="103 813 220 846">Risk trend</p> <p data-bbox="103 851 162 869">▬</p> <p data-bbox="103 898 284 931">Link to strategy</p> <p data-bbox="103 965 338 1037">  </p>	<p data-bbox="459 622 1497 1014">Faced with unprecedented challenges as the world emerges from Covid, customer expectations continue to evolve across speed to market, productivity, innovation, quality and sustainability. Coats as a global supplier, industry partner and thought leader is well-placed to help our customers meet their own challenges by rising to these higher expectations. To this end, we continue to engage intensively with our customers on a daily basis to understand, anticipate and meet these expectations. In 2021, we carried out customer surveys with manufacturers, brands and OEMs and continue to engage daily with multiple customer and industry stakeholders, influencers and decision-makers. Furthermore, we engaged in an in-depth study with industry experts to anticipate sustainability trends and expectations. This close engagement with customers has allowed us to deliver outstanding customer value during 2021. In collaboration with our customers, we helped them navigate the significant disruption caused by Covid lockdowns in Asia, leveraging our operational footprint and supply agility. In China, we have responded to the speed requirements of the domestic market, eliciting favourable customer feedback and stronger orders. We have also supported customers in their moves to build more resilient and closer-to-market supply models, servicing their needs across multiple markets and new suppliers.</p> <p data-bbox="459 1043 1497 1290">Our sustainability innovations have met and exceeded customer needs, evidenced by the significant increase in sustainable product sales, partnerships with customers like Decathlon in Diversity & Inclusion and the development of new products to progress the industry circularity agenda. Our Technical Services teams in both Apparel & Footwear and Performance Materials continued to support customers in their drive for higher productivity, improved quality and accelerated innovation, delivering over 6,000 direct customer engagements in the year. We have also acted to improve and automate customer service processes, creating more time for customer value-adding activities in key markets. Responding to the accelerating pace of industry change, Coats Digital has invested in SaaS transition for its industry-leading Fashion Tech software solutions as well as developing technology partnerships for greater customer impact.</p> <p data-bbox="459 1319 1497 1570">In 2021, we launched 21 new products across all our industry segments. In our Performance Materials business, we started industrial production of preforms for a leading US automaker, using our Lattice composite technology and our innovative Lattice Lite™ solution has now been adopted by a number of high-profile sports brands for their high end running shoes. At the same time 2021 saw us extend the Lattice range to Lattice Protect™ which offers lightweight, super strong components for safety shoes. Amongst the other products launched were our new range of reflective tapes – Signal Lucence which is a sew-on tape phosphorescent powered by VizLite DT. These reflective tapes offer a third layer of visibility working when there is reduced light or no primary light. They are lightweight and recharge via UV rays meaning there is no need for batteries.</p> <p data-bbox="459 1599 1497 1818">We continue to develop our innovation ecosystem, building increased capacity to create new product solutions as well as products in collaboration with customers and suppliers. At COP26 we announced the repurposing of our Shenzhen Hub to focus on the research and development of bio-based and recycled materials, working towards our commitment that by 2030 all Coats products will be made completely independently of new oil-extraction materials. We are already making huge strides in this area with our EcoVerde ranges, and in 2021 we launched our EcoRegen lyocell-based product which is made using fibres that are made from sustainably sourced wood pulp, which is a 100% cellulosic material and thus totally biodegradable.</p>



Principal risk	Action/mitigation
<p>Risk of ever-increasing customer expectations continued</p>	<p>The key mega trends influencing Performance Materials demand intensified in 2021. We have seen continued development of advanced composites with more innovation around processes, resins, fibres, substrates, matrices and finishes to build custom composite parts for numerous end uses. The race to reduce weight in passenger cars continues, with more and more focus on EV and battery ranges. In Personal Protection, increased worker protection remains a key theme with more industry regulation and the need for comfort with multi-hazard protection. Our customers and their customers are becoming ever more demanding, looking for increased performance from the materials they use, be this for chemical and corrosion resistance, flexibility, noise control or performing well at temperature extremes. At the same time high-performance materials must be increasingly sustainable, whether this is with moves to more recycled raw materials or increased material durability to minimise waste and product degradation. On top of the direct sustainable benefits of performance materials they are increasingly used to improve other production processes, for example in clean energy production by improving the efficiency of production methods. Guided by our purpose, we will continue to strive to deliver sustainable value and long-term benefits for our customers and all our stakeholders.</p>
<p>Risk of failure to attract, retain and develop talent and capability given business changes, growth in new areas and labour availability challenges.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>Despite the economic challenges brought by the pandemic, 2021 has seen critical labour shortages and specific skill gaps in the labour markets where Coats operates – particularly the US, Brazil and China, which have become increasingly competitive. In order to ensure that Coats retains, attracts and develops the right talent with the right skill sets, the Board's and senior management team's close focus on talent development and wellbeing continued in 2021.</p> <p>Following our successful switch to 100% online learning in 2020, we delivered more than 55,000 hours of training to our employees in 2021 through a variety of training platforms. We added some new elements to our suite of learning programmes including Manager Excellence, focussing on critical manager skills through short, relevant sessions of an hour every month for 12 months, and a new Mentoring Programme called Unlock Your Potential in which senior managers are paired with other employees for three months to support them to achieve particular objectives. While introducing some new programmes for our leaders, we continued to offer learning opportunities to our individual contributors and manufacturing employees. We also initiated a capability building project for our commercial team which will be further reinforced in 2022.</p> <p>As part of our employee listening strategy, which provides an integrated approach to understanding the overall employee experience, we continued with our comprehensive programme of engagement surveys, this time with our new external provider. The results were extremely encouraging. 90% of our employees took part in the survey and our engagement score was 83 – well above the benchmark of 74. We also took part in the external Great Place To Work surveys. By the end of 2021 we were delighted that 81% of our employees belonged to a certified 'Great Place To Work'. Whether or not the teams achieve certification, they all receive feedback from the 'Great Place To Work' organisation on actions they can take to further improve the working environment. We continued to deliver key employee health and wellbeing interventions in 2021 covering three main areas – Prevention, Protection and Medical Care, and Education. We introduced a range of global as well as local initiatives like mental health and wellness programmes. We also actively monitored the Coats markets considering the minimum wage increases and we continued our work on living wage to ensure that all employees receive a wage that is sufficient to afford a decent standard of living in their country or location.</p>



Principal risks and uncertainties continued

Principal risk	Action/mitigation
2. EXTERNAL	
<p>Economic and geopolitical risk arising from political, economic and demand uncertainty – across both key Asian and developed markets – including risk to free trade conventions as well as global inflationary pressures.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>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. Demand has been very strong during 2021; however, the Covid pandemic continues to cause significant uncertainty, particularly around localised disruption to our operations and supply chain, but we have a clear playbook and proven experience in dealing with such localised disruptions and minimising the impacts.</p> <p>Regional lockdowns like in India and Vietnam during 2021 caused operational challenges for the Group, although our fast response and global footprint meant that we were able to weather these challenges and continue to serve our customers. To the extent that the pandemic has a more prolonged impact on the global economic environment, there may be a negative impact on consumer spending and further potential localised disruption to our operations and supply chain – a risk for which we remain alert and prepared. During 2021 we also faced higher than normal inflation for many, our key raw materials, freight, labour and energy costs. For raw materials, freight and labour, the challenges were not just in relation to the high costs, but went much wider with reduced availability and reliability impacting service lead times. We have taken swift actions to counter this high inflation through a combination of self-help initiatives (productivity improvement and cost control measures) and pricing actions; we have also addressed supply chain disruptions through leveraging our global footprint, long term relationships with global suppliers and holding higher stocks as needed (see further actions referred to in Supply risk on page 54).</p>
<p>Cyber risk Risk of cyber incidents leading to corruption of applications, critical IT infrastructure, compromised networks, operational technology and/or loss of data.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>2021 was another year where the pandemic dictated that the workforce remain not just socially distanced, but also that the bulk of the administrative workforce was forced to work remotely. This was accomplished with largely the same procedural and technical controls initiated in 2020, which allowed us to manage the changing risk landscape that become more apparent with the remote workforce and the increase in attacks against the employees themselves and their home networks. To minimise threats, we employed technical controls and further education, informing our workforce about common attacks, social engineering schemes, etc and informing them to be diligent in adhering to the Group-level processes to keep themselves, their personal information, and the Company's data and systems secure.</p> <p>Our programme to defend against email-based threats, includes continuous security awareness training, routine phishing simulation campaigns, and deployment of an additional context-based email security solution (Q2 2021). Despite the increase in phishing threats being detected in both 2020 and 2021, we have not seen an increase in phishing-related incidents, largely credited to the existing and additional protections.</p> <p>Additional enhancements to our cyber programme added in 2021 were an improved cybersecurity asset management solution in Q3 2021 and SASE solution in Q4 2021. The enhanced asset management solution gives further insight to show any coverage gaps to security agents and controls. The SASE solution gives additional visibility, control, and improves end-user experience. Coupling these with our managed Security Operations Centre (SOC), which has been in place for the past three years, we continue to mature our programme to better protect the data of our organization, our customers, and our business partners.</p>





Principal risk	Action/mitigation
<p>Climate change risk arising from either (i) 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 and the financial risk of emissions taxes or other legislative changes, or (ii) the physical impact of climate change on the Company’s operations and business model, and that of its customers in the textile supply chain.</p> <p>Risk trend</p>  <p>Link to strategy</p> 	<p>During 2021 we have progressed our work on climate change risk analysis by moving from a largely qualitative assessment of risks to a quantitative assessment of the potential financial impacts. This has allowed us to identify those risks that are more material to our business and where it is imperative to focus on remedial actions.</p> <p>As during 2020, this work has been carried out using the Taskforce on Climate-related Financial Disclosures (TCFD) methodology, published as a technical supplement to their 2017 report. Included within this report on pages 38-45 is our first full report on the recommended TCFD disclosures, including the relevant financial disclosures.</p> <p>The progress of this work has been reported to the GRMC at each of their quarterly meetings and was reviewed by the ARC in their December 2021 meeting and again in February 2022.</p> <p>Since we started work on climate risk analysis we have made substantial progress with our climate strategy, which was early on identified as a critical mitigating action, and have developed and had approved Science Based Targets for emissions reduction under the 1.5°C pathway. As a result of these actions, one of the principal transitional risks we identified initially, that of failing to meet customer expectations and thus losing sales, has been effectively mitigated and currently is not a risk. The most significant remaining transitional risk is from the possibility of the introduction of carbon taxes and this is detailed in our TCFD disclosures. Obviously here also delivery of the emissions reduction targets that we have established will have a very significant mitigating effect on any carbon tax regimes that are introduced. There is a risk of failure to achieve our emissions reduction targets because of inadequate opportunities to transition to renewable electricity and a lack of reliable supply of recycled raw materials; however the Company has robust programmes in place to manage these risks.</p> <p>We have done a first analysis of the growing physical risks and have established the nature and potential scale of these risks, and the localities potentially impacted by flood and extreme heat risks under each of our scenarios. As detailed in our TCFD disclosure, these risks apply to our longer term horizons under higher carbon scenarios and are limited to specific units, mainly in Asia. More detailed work now needs to be done to review these medium to long terms risks with our business continuity plans for these particular sites and determine what, if any, mitigation options exist at each site potentially impacted.</p> <p>In parallel to this risk analysis work, we have also identified and studied the potential opportunities coming from climate change and these are detailed in our TCFD disclosures on pages 38-45. During 2022, we will also be adjusting our methodologies, where necessary, to the revised TCFD guidelines issues in October 2021 (2021 TCFD Implementing Guidance and 2021 Metrics Targets Guidance 1).</p>



Principal risks and uncertainties continued

Principal risk	Action/mitigation
<p data-bbox="103 622 414 817">Risk of supplier non-performance, unavailability and/or price increases of raw materials, labour and freight and/or logistical challenges causing major disruption to Coats' supply chain.</p> <p data-bbox="103 846 215 873">Risk trend</p>  <p data-bbox="103 985 279 1012">Link to strategy</p> 	<p data-bbox="459 622 1492 907">The Group conducts scenario analysis and continuity planning in relation to each of our key raw materials, as well as labour and freight, to assess what counter measures can be put in place if certain events were to occur. Regular assessment of financial performance of key suppliers and evaluation of suppliers' own risk management plans is undertaken, and our dependency on key suppliers and raw materials is reviewed frequently. The ramifications of the Covid virus continue to impact global supply chains, limiting availability of certain feedstocks and raw materials. This, coupled with a difficult sea freight market dynamic, has reduced the possibility of arbitrage and agility in global trade to respond to local shortages as they arise. To mitigate that, we continue to assess our global stocking policy for strategic raw materials, taking forward positions where possible where we can foresee shortages and expanding our supplier base where necessary.</p> <p data-bbox="459 929 1492 1097">The Group applies a similar approach towards freight, where in 2021 the Group saw an extremely volatile freight market with increasing rates for sea and air freight and with a very low reliability level mainly caused by port congestions, equipment shortages and a high demand in the US to import goods from China. To mitigate the risks, the Group is constantly enhancing planning accuracy and has increased the number of global and local forwarders and moved to a monthly tender based on spot rates instead of a long term agreement.</p> <p data-bbox="459 1131 1492 1209">In relation to labour, where 2021 saw labour shortages coupled with labour inflation, the Group, and specifically the Board and the senior executive team, remained intently focussed on talent development and wellbeing as described in more detail in the Talent and capability risk on page 51.</p> <p data-bbox="459 1243 1492 1310">Spanning all these areas, the Group has also moved quickly to implement a combination of self-help initiatives (productivity improvement and cost control measures) and pricing actions as referred to in Economic and geopolitical risk on page 52.</p>

Principal risk	Action/mitigation
<p data-bbox="119 622 448 898">Environmental non-performance risk given changing standards, increasing scrutiny, customer and investor demands and expectations and scale of Group's own self-imposed standards and ambitions, creating commercial, financial and reputational risks as well as opportunities.</p> <p data-bbox="119 927 233 954">Risk trend</p>  <p data-bbox="119 1039 296 1066">Link to strategy</p> 	<p data-bbox="475 622 1493 842">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. The progress on delivery of our strategy is detailed in our annual Sustainability Reports that are published simultaneously with our corporate Annual Reports. Detailed below are the principal actions taken during 2021 that impact and mitigate 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.</p> <p data-bbox="475 875 1493 1122">To assist us to achieve the energy and water targets detailed in the sustainability strategy and to more closely align to ISO 50001, we are implementing an energy management software system that we are currently piloting at five of our sites. This project involves adding hundreds of electricity, gas and water meters in addition to humidity and temperature sensors to understand how we can run production batches more efficiently, whilst minimising the energy and water used to do so. We further 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.</p> <p data-bbox="475 1155 1493 1290">These tools will help us meet our 2022 sustainability targets for water, energy and waste. Following the completion of Environmental Health and Safety (EHS) legal compliance audits for all of our global manufacturing units, we now track new and updated EHS legislative requirements, 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 a permits management system.</p> <p data-bbox="475 1323 1493 1514">Our environmental incident management system ensures that we have a consistent and transparent way of managing environmental incidents that occur, and we implement 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. As a result of this, and other measures, we improved our compliance to ZDHC in 2021 and continued to make strong progress towards our target of 100% compliance in 2022.</p> <p data-bbox="475 1547 1493 1706">Our global Business Continuity Plan includes environmental emergency preparedness and response plans, and we track environmental risks through an environmental aspects and impacts management system. Our environmental management plans are run through a series of workstreams to ensure key stakeholders have an input into their delivery through a define, measure, analyse, improve and control (DMAIC) process. These environmental and governance measures are managed through a digital energy and environmental management system.</p>

Principal risks and uncertainties continued

Principal risk	Action/mitigation
3. OPERATIONAL	
<p>Health and safety 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 pandemic, impacting wellbeing, engagement, productivity and talent retention.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>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 focussed on creating an injury-free work environment.</p> <p>A key focus for 2021 was to continue our effective pandemic response and to execute our plans for a safe and effective recovery. Through the development and implementation of a comprehensive recovery matrix and continuation of our previously effective workplace controls, we are successfully and safely managing the risk of Covid in the workplace and resuming business as usual where and when it is safe to do so.</p> <p>While the health of our workforce and effective pandemic response was a key focus of 2021, we also continued pursuing our Journey to Zero safety strategy that was launched in 2019. While focussing on proactive and preventive actions as well as leading indicators, we identified a series of targeted global objectives, including a company-wide Journey to Zero week, various targeted prevention campaigns, a new safety culture survey, and we conducted over 700,000 hours of safety training.</p> <p>All of our proactive, preventive actions translated into the following results for 2021:</p> <ul style="list-style-type: none"> • 24% reduction in work-related recordable injury rate (0.45 vs 0.59 in 2020) • 6% reduction in lost time case rate (0.34 vs 0.36 in 2020) • 23% reduction in days lost per lost time injury • 91% reduction in eye injuries • 38% reduction in slip/trip injury rates
<p>Bribery and anti-competitive behaviour risk of breach of anti-corruption law or competition law, resulting in material fine and/or reputational damage.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>The Group continues to maintain clear and well-publicised policies and processes, spanning bribery, anti-corruption and anti-competitive behaviour along with a number of other ethics issues, including in relation to partners, contractors and suppliers. These are reinforced with those latter stakeholders through a comprehensive Supplier Code (covering initial due diligence processes, onboarding, training, ongoing compliance and auditing). These policies are reviewed and updated annually. There is extensive online and face-to-face training and regular communications through a range of channels, including through leveraging the support of our global ethical culture champions network. During the pandemic, the ethical culture champions across the Group were asked to reinforce key ethical messages in light of the potential heightened risk of corruption in these uncertain times. Additionally, a sub-committee of the GRMC comprising key business and functional leaders, meets quarterly to consider a range of ethics risks (including closely monitoring key risk indicators for those risks), legislative and regulatory developments and mitigation plans. The risks are also considered at cluster level during regular local risk management meetings.</p> <p>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. As noted above, we have also now procured an externally hosted whistleblowing hotline, which further strengthens the robust existing whistleblowing arrangements that were already in place. See page 27 for more details.</p>

Principal risk	Action/mitigation
<p>4. LEGACY</p> <p>Lower Passaic River legacy environmental matter Detail of the Lower Passaic River legacy environmental matter can be found in note 28 on page 173.</p> <p>Risk trend </p> <p>Link to strategy </p>	<p>The Board continues to monitor developments very closely and oversees the strategy in relation to the Lower Passaic River proceedings.</p>

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 2020 outbreak of Covid resulted in these business continuity plans being activated and remaining activated throughout 2021. This included the immediate implementation of procedures to protect our employees and anyone entering our premises, along with actions to limit the financial impact on the business and proactively leveraging 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.

Following the completion and sign-off of the 31 March 2021 triennial valuation of the Coats UK Pension Scheme, Pensions Risk has been reclassified from a principal risk to a key risk. The basis for this reclassification is that there has been no amendment in deficit recovery payments, which will continue on the current terms until 31 December 2028. The Coats UK Pension Scheme is currently over 85% (2020: 80%) hedged against interest rate and inflation movements by reference to the Technical Provisions liability. Under the current deficit recovery plan, it is expected that the current deficit for the Coats UK Pension Scheme will be extinguished by 31 December 2028. See note 10 on pages 151-159 for more details.

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 activities 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 2024.

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 April 2021, have maturities which range from approximately 31 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 comprises financial projections for the next three years (2022 – 2024). The Medium Term Plan represents a common process with standard outputs and requirements at the Group level. The Board reviews the Medium Term Plan annually. Although this period provides less certainty of outcome, the underlying methodology is considered to provide a robust planning tool against which strategic decisions can be made.

The Directors have considered a range of severe but plausible scenarios that explore the Group's resilience to the potential impact of the principal risks as set out on pages 49-57, as well as other risks that could crystallise during the medium term.

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 and the revolving facility matures in 2024, with the ability for two one-year extensions. It has been assumed that the 2024 US private placement borrowings are successfully refinanced and that a one year extension is obtained for the revolving facility in 2024;
- 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

	2021 \$m	2020 \$m	2019 \$m	FY 2021 vs FY 2020 inc/(dec) %	CER ¹ inc/(dec)	Organic ¹ inc/(dec) %	FY 2021 vs FY 2019 inc/(dec) %	CER ¹ inc/(dec)	Organic ¹ inc/(dec) %
Revenue²									
By segment									
Apparel and Footwear	1,094	823	1,063	33%	33%	33%	3%	5%	5%
Performance Materials	409	341	326	20%	21%	19%	26%	29%	8%
Total	1,504	1,163	1,389	29%	29%	29%	8%	11%	6%
By region									
Asia	846	629	800	34%	33%	33%	6%	6%	6%
Americas	375	315	323	19%	20%	19%	16%	23%	2%
EMEA	282	219	266	29%	31%	31%	6%	10%	10%
Total	1,504	1,163	1,389	29%	29%	29%	8%	11%	6%
Adjusted operating profit^{2,3}									
By segment									
Apparel & Footwear	164	96	156	72%	72%	72%	5%	6%	6%
Performance Materials	29	15	42	93%	92%	94%	(30)%	(28)%	(28)%
Total adjusted operating profit	193	111	198	75%	74%	75%	(2)%	(1)%	(1)%
Exceptional and acquisition related items	(14)	(7)	(7)						
Operating profit⁵	179	103	191	74%	74%	74%	(6)%	(4)%	(4)%
Adjusted operating margin^{2,3}									
By segment									
Apparel and Footwear	15.0%	11.6%	14.7%	340bps	340bps	340bps	30bps	10bps	10bps
Performance Materials	7.1%	4.4%	12.8%	270bps	260bps	280bps	(570)bps	(560)bps	(420)bps
Total	12.8%	9.5%	14.3%	330bps	330bps	340bps	(140)bps	(160)bps	(100)bps

¹ Constant Exchange Rate (CER) are 2020 and 2019 results restated at 2021 exchange rates. Organic vs 2020 on a CER basis includes like-for-like contributions from Pharr HP (post acquisition date of February 2020). Organic vs 2019 on a CER basis includes like-for-like contributions from ThreadSol (post acquisition date of February 2019) and excludes contribution from Pharr HP (acquired in February 2020). ² Includes contribution from bolt-on acquisitions made during the period. ³ On an adjusted basis which excludes exceptional and acquisition-related items.

2021 results overview

In A&F we are growing faster than the market because of our excellent reputation for quality, our value proposition, our global footprint and our drive for innovative and sustainable products. In PM we continue to grow our customer share, and we see high growth opportunities in both Composites and Personal Protection, combining our innovative and differentiated product offerings.

Group revenues of \$1,504m increased 29% vs 2020 on a reported basis as the business recovered from the Covid pandemic. Group revenues on an organic basis increased 6% vs 2019 with continued accelerating momentum, delivering a performance above pre-Covid levels; this included accelerating momentum throughout the year with 20% growth vs 2019 in November and December (vs 1% at the half year, and 6% in July to October).

Group adjusted operating profit of \$193 million increased 75% (FY2020: \$111 million, FY2019: \$198 million). Adjusted operating margins were up 330bps to 12.8% (FY2020: 9.5%, FY2019: 14.3%).

Adjusted earnings per share (EPS) for the period increased to 6.8 cents (2020: 2.4 cents, 2019: 7.0 cents), back towards pre-Covid levels as operating profits and tax rates normalised from the significant disruption seen in 2020.

Apparel & Footwear (A&F)

Our A&F business benefited from a robust recovery in demand and saw strong thread market share gains (up 2% to 23%) as it leveraged its key customer relationships, its strong sustainability credentials, its market-leading product ranges and technical services, and its flexibility and agility in a turbulent supply chain environment.

The division saw strong growth of 33%, demonstrating the strength of our global footprint and ability to support customers during Covid lockdowns across Asia in Q2 and Q3. Our global accounts programme, in which we dedicate customer relationship resources to our key brands and retailers, saw excellent new customer and programme wins.

All of our regions (US, Europe and Asia) benefited from positive end market sentiment. Trends towards Sports and Athleisure as well as casualisation continued to accelerate through the second half whilst online adoption, a shift towards premium products and supply chain digitisation advanced further. Supplier consolidation, nearshoring and the customer need for speed were also prominent trends and unsurprisingly, our customers continue to place increasing emphasis on their own sustainability agendas. The ongoing demand shift from West to East and growth in domestic Asia also played to our strengths, with strong growth from domestic China brands and revenue for our China domestic business up 36% vs 2020.

All of the A&F sub-segments had strong revenue growth in 2021; A&F thread up 34%, zips and trims up 29%, Latin America Crafts up 8% and Coats Digital up 22%. Coats Digital, our Fashion Tech business, enables fashion brands, sourcing companies, and manufacturers to optimise, connect and accelerate business-critical processes seamlessly. In 2021 bookings saw high double-digit growth ahead of reported sales growth, indicating confidence for continued future growth. The order pipeline remains strong for 2022.

Adjusted operating profit for A&F increased 72% vs 2020. Adjusted operating margin was up 340bps to 15.0% vs 2020. This was as a result of excellent commercial and operational delivery, pricing actions and procurement self-help initiatives more than offsetting heightened inflationary pressures and the Covid disruptions during the year.

Operating review continued

2019 comparatives

As noted above, our A&F business had a strong year with revenues up 5% vs 2019 levels despite Covid-related lockdowns in Asia. By sub-segment, A&F thread revenues (c.85% of segment revenue) were up 6% vs 2019, with zips and trims (c.9% of segment revenue) up 13% in the second half to end the year flat vs 2019.

A&F adjusted operating margins were 30bps ahead of 2019 despite Covid-related lockdowns in Asia as a result of excellent commercial and operational delivery, tight control of discretionary spend, and supported by volume recovery.

Performance Materials (PM)

To more clearly align to the growth opportunities for the PM segment, the Group is changing the way in which it operates and reports the sub-segments of the division. From 2022 the Group will divide PM into Personal Protection (c.40% of divisional revenue), Composites (c.25%) and Performance Thread (c.35%). Performance Thread will be made up of the majority of the former Household & Recreation, Transportation and Other Industrial Applications sub-segments. The medium-term growth rates expected for each sub-segment are high single digits for Personal Protection, double-digit for Composites, and global GDP growth for Performance Thread. There is no change to the overall growth expectations of the division of mid-high single digit growth medium term.

Revenues recovered well in all segments, with organic growth of 19% vs 2020, including a recovery in Personal Protection which grew by 40% in November and December to end the year up 12% on an organic basis.

The division saw further customer share gains as well as new customer wins in the second half across all sub-segments, such as a Composites programme with a leading sports footwear manufacturer for its premium marathon shoe, increased share with automotive suppliers in Performance Thread, and Oil & Gas customers in Personal Protection.

Overall, PM revenues grew 21% on a CER basis (20% reported), consisting of organic growth of 19% and a 2% contribution from the acquisition of Pharr HP. Organic revenue growth performance vs 2020 was underpinned by all sub-segments with strong demand in Composites (+32%), Personal Protection (+12%) and Performance Thread (+20%).

Adjusted operating profit increased 92% on a CER basis to \$29 million and at an adjusted operating margin level, PM margins were up 260 bps to 7.1%, in line with guidance of mid to high single digits. PM margins for the year were however adversely impacted in the US by labour availability issues and labour inflation. Excluding the US business, PM margins were 14.4% indicating a healthy recovery of margins elsewhere in the segment.

2019 comparatives

Compared to 2019 PM saw organic revenue growth of 8% with all segments performing strongly (and in line with the trends described above); Composites was up 15%, Performance Thread was up 10% and Personal Protection recovered in November and December to end the year flat vs 2019 on an organic basis.

Operating margins remained down on 2019 (560bps on a CER basis) primarily as a result of the operational impacts of labour disruption in the wider US business, but saw an improving trend in the second half.

Geographical performance

We saw strong recovery across all regions with significant growth vs 2020 driven by improving end market sentiment and Coats' strong customer proposition.

In Asia, we saw revenue increase by 33%, driven by key A&F markets. This was 6% up on 2019 revenue levels, as this region saw the fastest recovery from Covid, despite some ongoing impacts in the period, most notably in India which suffered lockdowns in the second quarter and in Vietnam in the third quarter. Performance in China saw strong sales to domestic brands and in Bangladesh sales to the apparel export market were healthy. PM also performed well in Asia with growth in China as well as in India which saw increased production due to US demand.

Our Americas business saw organic revenues grow by 19% vs 2020, with 2% organic growth vs 2019 after an improved second half and growth in Brazil and Colombia. Consumer demand remains strong in the US across all PM segments. In Europe, which was also impacted significantly by Covid last year, we saw revenues grow by 31% vs 2020, and 10% above 2019.

This strong recovery was driven by the recovery in PM in telecom composites and transportation as fibre optics and automotive sales remained robust, led by our key markets in Spain and Turkey. Zips also saw a recovery in demand.

Financial review

Revenues

Group revenues increased 29% on a reported and organic CER basis, as all markets recovered strongly having been adversely impacted by the Covid pandemic in 2020. All commentary below is on a CER basis unless otherwise mentioned. Compared to pre-Covid (2019) levels, revenues in the year were up 6% on an organic basis, as demand accelerated during the year, and this was despite the ongoing Covid disruption seen across Asia in Q2 and Q3.

Operating profit

At a Group level, adjusted operating profit increased from \$111 million in 2020 to \$193 million (2019: \$198 million) and adjusted operating margins were up 330bps to 12.8% (2019: 14.3%). The table below sets out the movement in adjusted operating profit during the year:

	\$m	Margin %
2020 adjusted operating profit	111	9.5%
Volumes impact (direct and indirect)	129	
Pricing/Mix	37	
Raw material inflation	(25)	
Freight inflation	(20)	
Other cost inflation (eg labour, energy)	(17)	
Productivity benefits (manufacturing and sourcing)	22	
Normalisation of SD&A costs	(34)	
Others (eg FX)	(9)	
2021 adjusted operating profit	193	12.8%
Exceptional and acquisition related items	(14)	
2021 reported operating profit	179	11.9%

The direct and indirect volume impact of the Covid disruption, particularly in H1 2020, was a significant headwind on profits and margins in the prior year, as lower utilisation of factories led to an under recovery of manufacturing overheads. As a result of the ongoing strong Covid recovery, these volume impacts were largely reversed during the year, albeit there was some adverse impact felt, particularly in relation to Asia in Q2 and Q3 due to further lockdowns which produced manufacturing under recoveries in those quarters.

As a result of increasing oil prices in the latter part of 2020 and throughout 2021 we saw year-on-year inflationary headwinds on raw material costs, sea freight as a result of container availability and other costs such as labour and energy. As in previous periods we were successful in mitigating these inflationary pressures with productivity benefits and pricing / surcharges. We expect these inflationary pressures to continue into 2022; the pricing actions taken throughout 2021 position us well to continue to offset these.

We moved decisively to underpin our SD&A cost base during 2020 by minimising discretionary spend (for example travel, staff bonuses, Long Term Incentive Plans and consulting costs) and variable costs of selling. As expected, these savings normalised in the year as the business recovered, and resulted in a \$34 million normalisation of our SD&A costs. As a result of these factors, the Group's adjusted operating margins significantly increased to 12.8% (FY2020: 9.5%).

On a reported basis, Group operating profit (including exceptional and acquisition-related items) was \$179 million (2020: \$103 million). See below for a breakdown of these exceptional 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

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. For the full year, this impact was minimal on sales, and a marginal headwind on an adjusted operating profit, primarily due to movements in the Turkish Lira, Euro, and Colombian Peso. At current exchange rates (31 December 2021) we expect a c.2% headwind on revenues for the Full Year 2022.

Free cash flow

The Group delivered an adjusted free cash flow of \$113 million in the year (2020: \$28 million). This was a significant improvement on 2020 as the trading of the business continued to recover from the Covid disruption in 2020, as well as a disciplined approach to capital expenditure in the Covid recovery phase (\$31 million), and despite some investment in working capital (inventory levels up \$63 million year-on-year) to support our service levels during the strong demand recovery.

Non-operating results

Adjusted earnings per share (EPS) for the year increased to 6.8 cents (2020: 2.4 cents). This significant increase was due to the recovery in adjusted profit before tax (up from \$86.4 million to \$172.5 million), and the expected normalisation in the underlying effective tax rate to 31% (2020: 39%) as profitability returned to pre-Covid levels. The increase in adjusted profit before tax was due to the increase in adjusted operating profit (\$82 million increase), and a net interest charge which was \$4 million lower year-on-year (see below for further details).

Net finance costs in the year were \$21.8 million (pre-exceptional), a \$3 million decrease year-on-year (2020: \$24.8 million). The key drivers of the decrease in net finance costs in the year were a \$0.5 million reduction in interest on bank borrowings due to lower interest rates, and lower corporate facility utilisation compared to 2020. In addition, there was a \$2.6 million favourable movement year on year in relation to foreign exchange rate movements. These were partially offset by a \$1.3 million increase in interest on lease liabilities due to certain new leases taken out during the year.

The taxation charge for the year was \$54.4 million (2020: \$37.4 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 31% (2020: 39%). As profitability normalised to pre-Covid levels in 2021, so did the effective tax rate, as expected.

The reported tax rate was 33% (2020: 47%), which includes the impact of exceptional and acquisition related items.

Profit attributable to minority interests was \$19.7 million and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests). This was 25% above the 2020 level (\$15.8 million), which is lower than the overall adjusted operating profit growth for the Group (up 75% on 2020), which reflects the relative strength of performance of those territories during 2020.

Exceptional and acquisition-related items

Net exceptional and acquisition-related items before taxation were \$9.5 million (2021: \$6.8 million). These include strategic project costs of \$3.7 million and acquisition-related items of \$15.8 million. Strategic project costs were offset by a credit in relation to the recognition of a historic indirect tax claim within Brazil which is now deemed virtually certain and resulted in a \$5.8 million exceptional credit within operating profit and a further \$4.2 million exceptional interest income.

Strategic project costs of \$3.7 million relate to the commencement of a number of strategic initiatives during 2021. It is anticipated that cash exceptional costs in the order of \$35 million will

Financial review continued

be incurred in relation to these and further strategic initiatives across 2022 and 2023 in total. The resulting benefits are anticipated to deliver incremental adjusted operating profit of \$50 million by 2024.

Acquisition-related items of \$15.8 million consisted of the amortisation of intangible assets acquired in previous acquisitions (\$3.3 million), transaction costs in relation to the pursuit of strategic acquisition opportunities during the year (\$12.4 million), and acquisition earnouts (\$0.1 million). Growth through acquisitions is a key element of the Group's strategy and the Group will continue to be disciplined in the assessment of acquisition opportunities as they arise. The Group looks to identify companies with complementary capabilities that can further strengthen the core, technology, innovations, or Intellectual Property and which can be scaled to deliver growth and value for customers and shareholders.

Cash flow

The Group delivered \$113 million of adjusted free cash flow in the year (2020: \$28 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 significantly ahead of 2020 as a result of the recovery of adjusted operating profit, alongside continued well controlled net working capital outflows (\$15 million outflow) despite a number of inflationary pressures on our cost base and an investment in inventory to support supply chain disruption.

Capital expenditure was above 2020 (\$15 million) at \$31 million, as we invested selectively in the most appropriate opportunities in the Covid recovery phase. Minority dividend payments of \$17 million were incurred (2020: \$18 million) which relate to the repatriation of cash from local operations to the Group. Tax paid was \$48 million, broadly in line with 2020, which was lower than the P&L charge as it reflects some timing benefit from the lower tax charge in 2020, which benefited the first half.

The Group generated a free cash flow of \$33 million in the year (2020: \$23 million outflow), which primarily reflects the adjusted free cash flow of \$113 million, offset by UK pension payments of \$42 million (being \$33 million of ongoing deficit recovery payments and administrative expenses, and \$9 million catch up of deferred 2020 payments), shareholder dividends (\$27 million), and exceptional costs of \$11 million.

As a result of the above free cash flow, net debt (excluding the impact of lease liabilities) as at 31 December 2021 was \$147 million (31 December 2020: \$181 million). Including the impact of lease liabilities, net debt as at 31 December 2021 was \$246 million (31 December 2020: \$247 million).

Capital expenditure

Capital expenditure for the year was \$31 million (2020: \$15 million). As we continue to 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 \$35-45 million range for 2022.

Pensions and other post-employment benefits

The net surplus for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS19 financial reporting basis, was \$21 million as at 31 December 2021, which was \$247 million lower than 31 December 2020 (\$226 million liability). This decrease was primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, showed a \$108 million IAS19 surplus at 31 December 2021 (£80 million), which was \$237 million better than at 31 December 2020 (deficit of \$129 million, or £94 million). This improvement

predominantly relates to net actuarial gains of \$203 million (higher discount rate due to higher corporate bond yields, experience gains and asset outperformance), and \$37 million employer contributions (excluding administrative expenses).

In agreement with the trustees of the Coats UK Pension Scheme, and as part of the wider Covid underpinning actions, in 2020 we agreed to defer the remaining deficit recovery payments for that year (April-December inclusive), to provide an additional c.\$21 million of headroom cover. The catch up of these payments commenced in May 2021 and will be evenly spread over a period of around 18 months. As a result, total payments in 2021 were \$42 million (which includes \$9 million in relation to the start of the catch-up of the 2020 deferred contributions).

UK triennial update

The effective date for the latest UK scheme triennial valuation was 31 March 2021. This valuation was successfully completed and agreed with the Trustees during the year, ahead of schedule, with a resulting Technical Provisions deficit of £193 million which is £59 million lower than the previously agreed valuation in 2018. As a result of this valuation, future contributions remain at the previously agreed levels of £22 million (\$29 million) per annum (indexing) up until 2028, and result in the pay down of the deficit slightly earlier than originally planned. The Group will continue to pay the scheme administrative expenses and levies of around \$5 million per annum. Together with the remaining catch up of deferred 2020 contributions, 2022 payments are expected to be around \$46 million.

Balance sheet and liquidity

Group net debt (excluding lease liabilities) as at 31 December 2021 was \$147 million (\$246 million including lease liabilities), which was lower than 31 December 2020 (\$181 million), and reflects strong cash management as noted above.

At 31 December 2021, our leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 0.7x and remains well within our 3x covenant limit, and slightly below the lower end of our target leverage range of 1-2x. Our interest cover covenant also maintained significant headroom at 31 December 2021 at 28x 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 around \$330 million at 31 December, which remains at a comfortable level allowing us strategic optionality to consider the most attractive organic and inorganic investments in the post Covid recovery phase.

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.

Jackie Callaway

Chief Financial Officer
2 March 2022

The Strategic Report comprising pages 1–67 was approved by the Board and signed on its behalf by the Group Chief Executive.

Rajiv Sharma

Group Chief Executive
2 March 2022

Chair's introduction



Dear Shareholder,

On behalf of the Board, it is my pleasure to present the corporate governance report for the year ended 31 December 2021, which provides insights into the Board's and its Committees' activities this year.

Our stakeholders

Central to enabling our ambitions is understanding the views of our stakeholders by regular and meaningful engagement at all levels of the Group. These views inform our decision making and you can read more about who we have identified as our key stakeholders, our interactions during 2021 and the impact this has had on our approach on pages 20 to 23. In an environment of continued uncertainty, I am proud of the engagement of our people and their determination and commitment to finding creative solutions to drive progress. The Board has had two sessions reviewing the outcomes of and the actions taken in relation to the feedback received via the Your Voice Matters employee engagement survey (more information is set out on page 27). Fran Philip, our designated Non-Executive Director for Workforce Engagement has had another busy year, engaging remotely and in person with our workforce and the insights from this are detailed on page 29. In addition, the Board has had regular talent reviews and a health and wellbeing deep dive to deepen our people insights. During the year, we also conducted a customer experience deep dive and the Board continued to use analytical data, such as net promoter scores (NPS), to monitor trends in customer satisfaction. We commissioned an independent investor study to understand how the Company was perceived and valued by existing and prospective shareholders, to again ensure we were challenging our own views and assumptions. Upon appointment, I engaged with some of our largest shareholders to understand their views and expectations. Nicholas Bull, our Senior Independent Director, has also attended numerous calls this year to discuss environmental, social and governance (ESG) and sustainability matters with some existing and prospective shareholders and he has shared his insights with the Board.

Regional deep dives – a fresh view of governance

In 2021, the Board approved a programme of seven deep dives into our regions that were presented and discussed at Board meetings throughout the year. The presentations covered a wide range of topics including markets, performance and operations, competitors and risk, as well as considering stakeholders through this lens such as key customers and suppliers, our workforce in the markets and ESG matters, including the impact on the communities in which they operate. This fresh approach enabled the Board to review the business on a holistic basis to gain greater understanding of each region's role in contributing to the success of the Group, including new stakeholder insights. The Board invited members of the leadership team from each of the seven regions to these meetings to engage directly and to understand the talent within that business. The feedback from both the Board and from the leadership teams was wholly positive with all parties benefitting from this new lens and it is intended that the Board will continue to track progress against the agreed actions and monitor alignment to overall strategy as part of the updates to be presented in 2022.

Board and Committee activities and effectiveness

Agile and flexible ways of working and meeting are going to be key to companies succeeding in the future and I am delighted that our Board has transitioned to the 'new normal' seamlessly. The Board continued to meet remotely for the first half of 2021, in line with the guidance in force at the time. Our AGM was held using electronic means with only the Directors required to form a quorum attending in person. Shareholders and the remainder of the members of the Board were able to listen to the business of the meeting and ask questions via a teleconference facility. However, during the second half of the year, the Board mixed virtual and face-to-face meetings to maximise effectiveness and efficiencies. We were able to proceed with our planned away week in the USA to visit some of our factories and meet with the workforce and some of our other stakeholders. This face-to-face engagement provides additional value to the Board discussions and you can read more about both the schedule of Board meetings and the areas covered at the away week on page 80. Recognising that the Board can meet effectively virtually and being ever mindful of our environmental impact, we plan to continue holding several of our scheduled meetings virtually in 2022 and beyond.

Continuing the theme of Board effectiveness, this year the Board and its Committees again undertook an internally facilitated effectiveness review in accordance with the requirements under the UK Corporate Governance Code 2018 (Code). Details of the Board review, its outcomes and how this will inform the development of the Board's objectives for 2022 can be found on pages 81 to 82. You can read about the results of the surveys undertaken by the Committees in their individual reports and review the results of the independent review of effectiveness of our Internal Audit function, conducted by the Chartered Institute of Internal Auditors, in the Audit and Risk Committee Report on page 87.

Sustainability

As set out elsewhere in this Annual Report, and also in our Sustainability Report (available on www.coats.com/sustainability), we have enhanced and added to our sustainability ambitions in 2021 and we have also taken decisions to further develop the governance structure that supports and helps us to deliver these challenging goals. Our newly formed Sustainability Committee is comprised of three Non-Executive Directors and the Group Chief Executive, and it is responsible for the oversight and monitoring of the Company's Sustainability strategy and initiatives. You can read more about this on page 78 and review the Sustainability Committee's Terms of Reference on the Corporate Governance section of our website, www.coats.com. The Sustainability Committee will enhance the Board's focus on the environmental and employee engagement-related social elements of ESG. We have also updated the terms of reference for our other Board Committees to reflect their enhanced role in ESG monitoring and oversight, by including the Remuneration Committee's focus on the remuneration-related social element, the Nomination Committee's focus on the diversity and inclusion-related social element and the Audit and Risk Committee's focus on the governance element. The Board has also recently approved a climate change strategy as well as reviewing and updating our other environmental policies. You can also see information about our compliance with the Task Force on Climate-Related Disclosures (TCFD) recommendations on pages 38 to 45. Coats is a member of the FTSE4Good UK Index and I am pleased that we have maintained our position on the 92nd percentile in 2021.

Governance, culture and goals

This is the third year of reporting under the Code and I am pleased to confirm that Coats has applied the principles and our statement of compliance with the relevant provisions is set out on page 70. We continue to focus on the key themes of sustainability, diversity, engagement with our stakeholders, fair remuneration structures and the strengthening of corporate culture. This report gives an insight into how we maintain and monitor our robust processes to ensure that good governance and behaviours are at the heart of everything that we do.

Our purpose, 'to connect talent, textiles and technology to make a better and more sustainable world', continues to guide and inform decisions made at every level of the Company. Coats has a strong and established culture, which is supported by our foundations and our principles, and shapes the way we work. Our resilience and performance following the pandemic is due to our business model and all our people continuing to act in line with our high standards of ethical behaviour in 'doing the right thing' and driving our sustainable growth and the customer outcomes we desire. The Board takes its role of setting and monitoring culture, values and ethics seriously, as set out on page 77, and led in our operations by the Group Chief Executive and the rest of our Group Executive Team (GET) and senior management teams.

We continue to ensure good governance is present at all levels and all areas of the Group. There are reliable Group-wide systems in place to monitor all aspects of governance and, as set out on the pages of this Annual Report, the Board and its Committees regularly review information about our strong health and safety culture (see page 26), our approach to assessing and monitoring risk (see pages 46 to 58), monitoring sustainability data in real time, and encouraging and investigating any disclosures made by workforce or other stakeholders either directly or through our internally hosted Group ethics channel or via an externally hosted web service whistleblowing hotline. You can read more about the statistics relating to whistleblowing allegations, as well as the Board's role in monitoring the regime, in the Directors' Report on page 93.

Diversity and inclusion

Our people enable us to succeed. The way in which we attract and retain talent has been revised as a result of Covid. The global workforce is expecting increased flexibility in when, where and how they work; successfully managing these expectations, balanced with an attractive company culture, while demonstrating the effective implementation of an ambitious strategy, all combine to attract and retain a diverse and highly effective team. You can read more about our Diversity Policies and how we review and manage talent to ensure an inclusive working environment in our Nomination Committee Report on pages 89 to 91 as well as in the People section on pages 26 to 28.

Board composition

I was honoured to succeed Mike Clasper as Chair of your Company in May 2021. On both your and the Board's behalf, I used the AGM as an opportunity to formally thank Mike for his tremendous contributions to our Company. Following these changes we took the opportunity to review and refresh the composition of the Remuneration and Audit and Risk Committees in line with Code and you can read more about this in the Nomination Committee Report on page 90. During the course of this year, Jackie Callaway succeeded Simon Boddie as Chief Financial Officer. As set out in last year's report, Simon stepped down from the Board in March 2021.

Dividend

The Board is mindful of the importance of returns to shareholders and it is pleased to declare a final dividend of 1.50 cents per share (2020 final dividend: 1.30 cents). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2022 to ordinary shareholders on the register at 29 April 2022, with an ex-dividend date of 28 April 2022.



David Gosnell
Chair
2 March 2022

Chair's introduction continued

The UK Corporate Governance Code





Compliance Statement

Coats complied with all the relevant provisions of the 2018 UK Corporate Governance Code (Code) during the course of the year ended 31 December 2021, with the exception of provision 38 (alignment of executive director pension contribution rates with those available to the workforce). Jackie Callaway was appointed in December 2020 with a pension benefit which was aligned to the workforce. Phased arrangements are in place for Rajiv Sharma which limited his pension benefit with effect from 1 January 2020 to a fixed amount and his pension benefit will reduce to 12% to ensure compliance by 31 December 2022, as detailed in the Remuneration Report on page 111. Similar arrangements were in place for Simon Boddie prior to his retirement from the Board in March 2021. The Board considers it appropriate that there is a phased transition of the pension benefits for existing Executive Directors who originally had a contractual entitlement to a higher level of pension benefit.






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

Board leadership and Company purpose	Read more
Promoting the long-term sustainable success of the Company	Page 4
Generating value for shareholders	Page 16
Contributing to wider society	Page 20
Purpose, values and strategy, and how these and our culture are aligned	Pages 16 and 77
Resources available to allow Coats to meet its objectives and measure performance against them	Page 18
Control framework	Page 87
Stakeholder engagement	Page 20
Workforce policies and practices	Page 36
Division of responsibilities	Read more
The Chair	Page 75
Division of responsibilities	Page 75
Non-Executive Directors	Page 75
Information and support	Page 78
Composition, succession and evaluation	Read more
Succession planning	Page 90
Board diversity	Page 91
Board evaluation	Page 81
Audit, risk and internal control	Read more
Independence and effectiveness of internal and external audit functions	Pages 87 to 88
Fair, balanced and understandable reporting	Page 85
Principal risks	Page 46
Remuneration	Read more
Remuneration policies and practices support strategy and promote long-term sustainable success	Page 96
A formal and transparent procedure for developing policy on executive remuneration	Page 96

How governance supports strategy

Strategic goal Profitable sales growth	(Read more on page 10)
Key stakeholders	
    Shareholders Customers Suppliers Workforce	
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 2021:	
<ul style="list-style-type: none"> • Deep dives conducted for seven regions covering operations, strategy, stakeholders, risks and ESG matters • In-depth review of Coats' digital strategy and global accounts • In-depth review of Composites strategy and the segmented supply chain service model • Reviewing the Group's dividend policy 	

Strategic goal Value creation	(Read more on page 10)
Key stakeholders	
    Shareholders Customers Suppliers Workforce	
The Board's governance role	
The Board reviews key proposals relating to business capability.	
Areas of focus in 2021:	
<ul style="list-style-type: none"> • Regular review of people matters including talent and succession plans and updates from our designated Non-Executive Director for Workforce Engagement's meetings with employees on culture • Independent review of shareholders' perceptions and how Company was valued by existing and prospective investors • Considering acquisitions and divestments as identified and determining appropriate course • Considering and monitoring the Group's risk appetite and principal risks and uncertainties and conducting appropriate reviews of health and safety, with a focus on commuting and 'lost time' accidents 	

Strategic goal Continuing to strengthen the core	(Read more on page 10)
Key stakeholders	
     Workforce Customers Suppliers Environment Shareholders	
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 2021:	
<ul style="list-style-type: none"> • Received updates on employee views and engagement, and reviewed results of Your Voice Matters survey and the progress on actions • Deep dive conducted into health and wellbeing • Ensured the Company remains at the forefront of developing and embedding best practice in responsible business behaviour • Considered the appropriate management structure for the business and approving changes to the GET and approving the transition from seven to three regions 	

“Good Board governance is key for any organisation that wants to appropriately represent all of the Company's stakeholders. This applies to risk management, resource allocation at a high level and, very importantly, all elements of talent strategy, to name a few.”

Jakob Sigurdsson
Non-Executive Director

Board of Directors

David Gosnell OBE



Chair of the Board since 19 May 2021

British

Appointed 2 March 2015 (David stepped down as a member of the Audit and Risk Committee and as the Chair and a member of the Remuneration Committee on 1 May 2021, ahead of his appointment as Chair of the Board)

Key skills and experience

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

External appointments

Was previously Chair 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 the 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 89.

Rajiv Sharma



Group Chief Executive

Singaporean

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
- Growth, digital, sustainability and acquisitions track record

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 8.

Jackie Callaway

Chief Financial Officer since 1 April 2021

New Zealander

Appointed 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, Jackie was Group Financial Controller of Brambles Ltd, 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 of the Institute of Chartered Accountants in England and Wales. She has a Bachelor of Business Management Studies from the University of Waikato, New Zealand.

Key to Committee memberships

- Committee chair
- Committee member
- Audit and Risk
- Nomination
- Remuneration
- Sustainability

Nicholas Bull

A N R S

Senior Independent Non-Executive Director

British

Appointed as a Non-Executive Director and Senior Independent Director on 10 April 2015 (Nicholas was appointed as a member of the Remuneration Committee on 1 May 2021)

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

Chair of Fidelity China Special Situations plc, Deputy Chair of Conran Holdings Ltd, Trustee of the Design Museum, Camborne School of Mines Trust, The Creative Education Trust and the Conran Foundation and a member of the Advisory Panel of INTO University. Previously served as Chair of De Vere, Chair of the Advisory Board of Westhouse Securities and of Smith's Corporate Advisory Limited and a member of Council of the University of Exeter. Nicholas 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

Independent Non-Executive Director

Irish

Appointed 1 March 2018

Key skills and experience

- Experienced audit committee chair with extensive financial and internal controls experience
- Global business and developing markets experience

External appointments

Non-Executive Director and Chair 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 has a Bachelor of Commerce in Economics, Accounting and Business from University College Galway, Ireland.

Anne's extensive business experience and her deep knowledge and understanding of internal controls, combined with her experience from service on other audit committees, provides the Company with a highly qualified Audit and Risk Committee Chair with unique perspectives in the Boardroom.

See the Audit and Risk Committee report on page 83.

Hongyan Echo (Echo) Lu

N R

Independent Non-Executive Director

British/Chinese

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

A member of the Advisory Board for Diversity in Hospitality, Travel and Leisure. Previously Chief Executive Officer of Haulfryn Group Ltd, a UK leisure business, and 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.

Echo became Chair of the Remuneration Committee with effect from 1 May 2021, having served on the Remuneration Committee since her appointment to the Board in December 2017. Her background and qualifications in Industrial Relations and Human Resources provide the Company with an ideally experienced Chair of the Remuneration Committee.

See the Remuneration Committee report on page 96.

Board of Directors continued

Fran Philip

N R S

Independent Non-Executive Director, Designated Non-Executive Director for Workforce Engagement

American

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., Sea Bags, 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 29 for more information about workforce engagement.

Jakob Sigurdsson

A N

Independent Non-Executive Director

Icelandic

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.

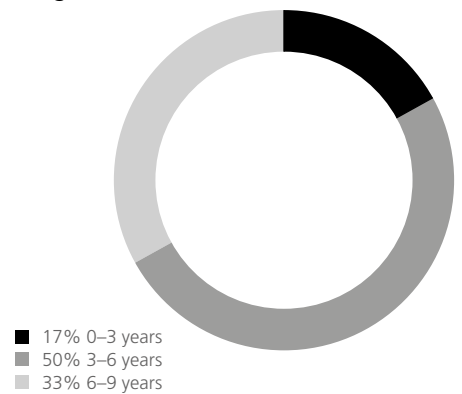
Between September 2016 and June 2017, Jakob was Chief Executive Officer of VÍS, the largest Icelandic insurance and reinsurance company. He has held various Non-Executive roles and was a Member of the University of Iceland Council and a Non-Executive Director of the Icelandic Technology and Development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

Qualifications

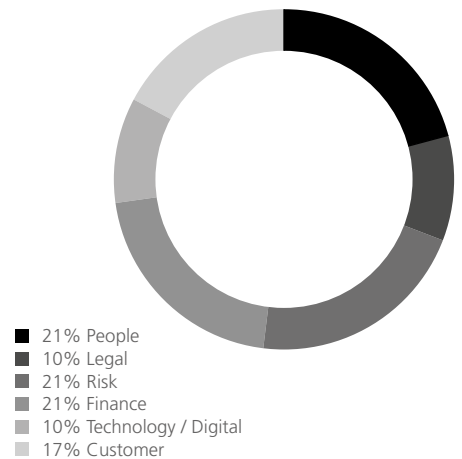
Jakob has a BSc in Chemistry from the University of Iceland and an MBA from the Northwestern University.

Board profiles (excluding Executive Directors)

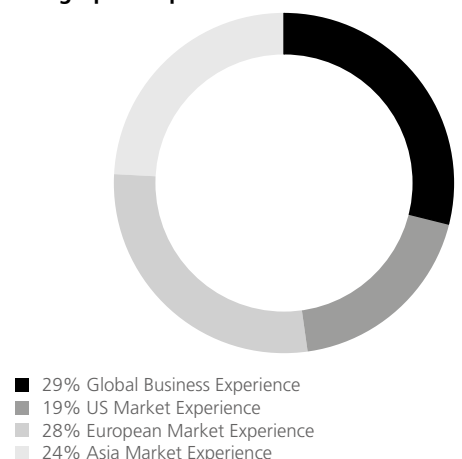
Length of service



Relevant Functional Experience



Geographic Experience



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, including consideration of strategic acquisitions;
- overseeing implementation of the strategy by ensuring that the Group is suitably resourced to achieve its strategic aspirations;
- encouraging entrepreneurial leadership by providing 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;
- overseeing returns to shareholders and monitoring the share price; and
- setting and monitoring the Group's culture, supported by its values, and ensuring alignment with the Company's purpose and strategy.

Chair

- 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 CEO succession.
- Provides advice and acts as a sounding board to the Board and management. Has regular contact and interaction with the Group Chief Executive.
- Ensures effective communication with our shareholders.

Senior Independent Director

- Provides a sounding board to the Chair.
- Leads the appraisal of the Chair'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 Chair 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 were approved for adoption at the 2021 AGM and these now reflect best practice and current legal and governance standards.

Service contracts

Details of the Executive Directors' service contracts and the Chair's and the Non-Executive Directors' letters of appointment are set out in the Directors' Remuneration Report on page 104. 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 four 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 human resourcing decisions.

“Better governance gives comfort to customers of the quality of their supply chain, aids recruitment and retention of high-quality staff, and underpins the relationship with the capital markets enabling financing for growth.”

Nicholas Bull
Senior Independent Director

The role of the Board

<p>Strategy</p> <p>The Board is focussed 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, including generating growth. The Board holds an annual strategy meeting as well as considering strategic matters at all Board meetings. In 2021, the Board considered a wide range of topics including the Coats Digital business and our Composites strategy. During the year, the Board also conducted deep dives into each of our seven regions and these included a review of strategic priorities as well as various other matters. You can read more about the Company's strategy on page 10 .</p>	<p>Performance and monitoring</p> <p>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. The Board also oversees returns to shareholders and ensures pensioners' interests are safeguarded.</p> <p>Performance monitoring includes non-financial performance such as quality, customer NPS reviews, employee wellbeing, environmental and social measures and ethical business practice.</p>
<p>Leadership and people</p> <p>The Board is responsible for succession planning and the Remuneration Policy for Board roles, Executive Directors, the Company Secretary and senior management.</p> <p>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.</p>	<p>Governance and stakeholders</p> <p>The Board ensures that there is continued compliance with the Code (see page 69) 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 pages 20 to 23.</p>
<p>Internal controls and risk management</p> <p>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 (see page 87).</p> <p>You can read more about our principal and emerging risks on pages 46 to 58.</p>	<p>Health and safety and the environment</p> <p>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 enhanced Sustainability strategy on page 12 and about our approach to health and safety on page 26.</p>
<p>Culture</p> <p>The Board and its Committees assess and monitor culture through a number of indicators and mechanisms including:</p> <ul style="list-style-type: none"> • Health and safety updates at every Board meeting (read more on page 26) • People updates including the results of Your Voice Matters engagement survey and monitoring of follow-up actions such as enhancing continuous feedback processes and deploying a mentoring programme, designated Non-Executive Director for Workforce Engagement updates, Great Place To Work certifications and diversity and inclusion updates • review of whistleblowing cases and remedial actions (read more on page 93) • supplier audits • Sustainability strategy and metrics review, including a sustainability dashboard that is considered quarterly at Board meetings 	<p>Ensuring alignment</p> <p>The Board, with support from its Committees, plays a crucial role in setting and monitoring the culture of the Group and ensuring its alignment with the Company's purpose and strategy. Following the changes to the ways of working experienced over the last few years, these assessments are even more important to ensure an understanding of whether the culture continues to be appropriate, and whether there are any further actions that are necessary. In addition to the mechanisms already outlined, in 2021 the Board also discussed how the Company's purpose and values were brought to life in markets, and the link to local strategy, with management as part of the deep dives into the seven regions. People matters, including cultural indicators, were also considered in these sessions. Alignment was also considered, including from the viewpoints of our employees, investors, customers, communities and suppliers, as part of the discussion to build on our Sustainability strategy. The Board and its Committees consider any trends in, and the insights from, the information presented at and in between Board meetings, through the lens of ensuring the desired alignment between culture, values, strategy and purpose, and provides feedback and direction if required.</p>

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.
- Oversight of the governance element of ESG.

See page 83 for more information.

Remuneration Committee

- Reviews and recommends the framework and policy for the remuneration of the Chair, 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.
- Oversight of the remuneration-related social element of ESG.

See page 96 for more information.

Nomination Committee

- Reviews the structure, size, composition and mix of skills and experience 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 and inclusion.
- Oversight of the diversity and inclusion-related social element of ESG.

See page 89 for more information.

Sustainability Committee

The Sustainability Committee provides strategic oversight and monitors the execution of the Company's Sustainability strategy and initiatives. It oversees the environmental and employee engagement-related social elements of ESG. The Chair of the Board chairs the Committee, and its other members are the Group Chief Executive and two Non-Executive Directors. The Committee was established in December 2021 and its terms of reference are available on [coats.com](https://www.coats.com).

Other committees

Disclosure Committee

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

See page 79 for information on our Group Executive Team

Group Executive Team (GET) members' roles and responsibilities

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.

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 46 for more detail on key risks).
- Builds positive relationships with all the Group's stakeholders (see page 20).

Chief Financial Officer

- Responsible for financial management and implementing and monitoring effective financial controls.
- Supports the CEO in developing and implementing the Company's strategy.
- Oversees relationships with the investment and banking 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 3.

Adrian Elliott, President, Apparel & 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 3.

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 87.

Michael Schofer, Chief Transformation and Digital Officer

- Responsible for business transformation and Digital and Technology.

Monica McKee, Chief Human Resources Officer, and Paul Turner, President, Business Operations, both left the business on 31 December 2021. Jackie Callaway, CFO, is acting as interim Chief Human Resources Officer until a successor is appointed. The Chief Human Resources Officer is responsible for delivering the global Human Resources strategy, including performance management, progression planning, reward and talent acquisition.

From 1 January 2022, a new GET structure is in effect to reflect the move to our three region operating structure. The changes to the GET membership are summarised below:

- Michael Schofer is now Chief Operating Officer, Americas;
- Frederic Verague joined the GET as Chief Operating Officer, EMEA;
- Bill Watson joined the GET as Chief Operating Officer, Asia; and
- Tram Anh Tran joined the GET as Chief Supply Chain Officer.

There are no changes to the roles and responsibilities of the other GET members.

Corporate governance continued

Board and Committee attendance

The Directors' attendance record at the last AGM, scheduled Board meetings and Board Committee meetings, for the year ended 31 December 2021 is set out in the table below. In line with recommendations and government guidance, the 2021 AGM was held as a combined physical and electronic meeting with access to the physical location of the meeting being restricted to the number of Directors necessary to form a quorum. The remaining members of the Board attended the meeting electronically but this did not count as formal attendance for the purposes of the Articles of Association that were in force at the time of the AGM. At the AGM, the Company adopted new Articles of Association that allow the Company to hold 'hybrid' general meetings going forward. For Board and Board Committee meetings, attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend.

	Board	Audit and Risk	Nomination	Remuneration	AGM
David Gosnell	14/14	2/2 ¹	2/2	1/1 ¹	1/1
Mike Clasper ²	5/5	–	2/2	–	1/1
Rajiv Sharma	14/14	–	2/2	–	0/1
Jackie Callaway	14/14	–	–	–	0/1
Simon Boddie ³	1/1	–	–	–	0/0
Nicholas Bull	14/14	5/5	2/2	2/2 ⁴	0/1
Anne Fahy	14/14	5/5	2/2	–	0/1
Echo Lu	14/14	–	2/2	3/3	0/1
Fran Philip	14/14	–	2/2	3/3	0/1
Jakob Sigurdsson	14/14	5/5	2/2	–	0/1

1. David Gosnell stepped down as Chair and a member of the Remuneration Committee and as a member of the Audit and Risk Committee on 1 May 2021 ahead of his appointment as Chair of the Board, in line with the requirements of the Code.

2. Mike Clasper stepped down from the Board on 19 May 2021.

3. Simon Boddie stepped down from the Board on 31 March 2021.

4. Nicholas Bull was appointed as a member of the Remuneration Committee on 1 May 2021.

During the year, the Board held nine scheduled meetings and an additional five Board calls were held to discuss business matters that the Chair and Group Chief Executive decided should be considered by the Board. All Directors received papers for meetings in advance. The Board met virtually using audio-video conferencing until July 2021 and subsequently mixed virtual and face-to-face meeting attendance to maximise effectiveness and balance the ongoing risks of physical meetings. Noting the geographic diversity of our Board, Board meetings have often spanned two consecutive days to ensure appropriate time to consider items recognising the different dynamic of meeting virtually. The Board has continued to adapt well to the changing ways of working and intends to continue to hold some meetings virtually in 2022, recognising the environmental benefits and other efficiencies in balancing a mix of virtual and physical meetings. This approach will be periodically reviewed to ensure that Board effectiveness is optimised.

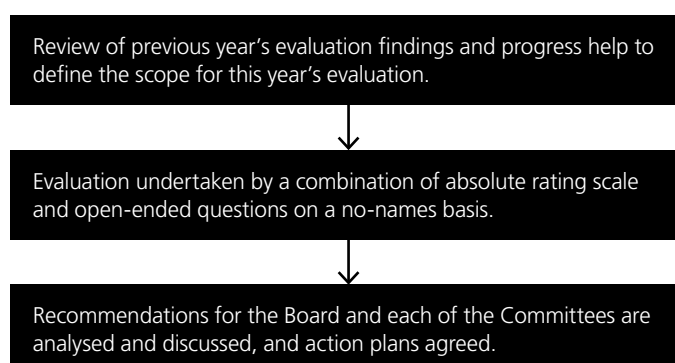
The Board was able to proceed with a hybrid annual strategy meeting in 2021, with most Directors meeting physically in London and certain presenters also attending in person. This year, the Board held its annual away week in the USA in October and all Directors were able to visit certain of our sites and engage with employees and other stakeholders face-to-face. You can read more about the Board's engagement with stakeholders on pages 20 to 23.

In addition to the scheduled meetings, the Senior Independent Director and the Non-Executive Directors meet once a year without the Chair present in order to appraise his performance. The Chair and the Non-Executive Directors also periodically attend sessions without management present to discuss, amongst other things, the performance of key members of management.

Board evaluation

In line with the Code, this year an internal evaluation of the Board and its Committees was conducted and an external evaluation will be undertaken in 2022. The internal evaluation process of the Board and its Committees was led by the relevant Chair and comprised a questionnaire that was circulated electronically.

The Board and its Committees recognise the value of a full and transparent evaluation of their performance and seek feedback from both Board members and regular Board and Committee meeting attendees.



The Board-related questionnaire focussed on the areas identified for improvement last year, and a summary of actions that were taken in relation to this feedback is set out below.

Outputs for 2021

People strategy

Actions taken: Bi-annual talent reviews presented by the Chief Human Resources Officer and succession planning update also presented. Health and wellbeing deep dive presented at October Board meeting. Reviews of the Your Voice Matters survey results and monitoring of follow-up actions, as well as designated Non-Executive Director for Workforce Engagement presentations continuing to monitor culture and direct workforce feedback.

Executive succession planning

Actions taken: Appropriate reviews of CEO succession plans and bi-annual review of below GET-level succession plans, with focus on diversity in pipelines. The seven regional deep dives allowed the Board to directly interact with leadership teams.

Inorganic M&A growth opportunities

Actions taken: appropriate review of strategic opportunities when available.

Continuing to focus on the full range of stakeholders in Board discussion and decisions

Actions taken: Board papers continue to consider stakeholder impact, to allow preparation before meetings. Independent investor study undertaken in 2021 as well as a customer experience deep dive. The regional deep dives referred to specific stakeholder impacts to allow the Board to understand geographic differences.

Corporate governance continued

The 2021 Board evaluation also covered Board performance and dynamics, the relationships between the Directors and the GET, the content and scope of topics covered at Board meetings, and consideration of each of our identified key stakeholder groups in Board decision making. The questionnaire contained many of the questions that were asked in 2020, to allow year-on-year tracking. This consistency remained important in 2021 when our meetings were held using a mix of virtual and face-to-face attendance. Noting that there have been changes in the Chair of the Board and the Remuneration Committee and other changes to the composition of the Board and its Committees, questions were added to allow respondents to consider if there had been any impact on effectiveness following these transitions. Finally, it gave respondents an opportunity to provide their candid thoughts: what was being done well and what needed to be improved. Views were also sought on the Chair and Senior Independent Director, as well as the workings of the Committees of the Board.

The results were collated by the Company Secretariat on behalf of the Chair and the results were considered by the Board at its December meeting. There was a detailed Board discussion and it was noted that the respondents considered that the Board's effectiveness had increased in 2021 relative to 2020. In particular, the Chair's transition was rated highly by all respondents. The Board reviewed both the absolute ratings and the freeform comments that had been submitted. The areas identified by respondents for further focus in 2022 are set out below and the Board will provide details of the actions that are taken in relation to these in the next Annual Report.

Actions for 2022:

- ▶ Continue focus on ESG matters, particularly related to 'social' including culture, at Board meetings and through Committees, including the newly formed Sustainability Committee
- ▶ Continue to ensure that the Board engages appropriately with all stakeholder groups
- ▶ Lead by example on simplification by reducing the demand on management time through the preparation of shorter, more-focussed Board packs, that maintain the quality of information required for effective decision making

Audit and Risk Committee report

Name	Member since
Anne Fahy (Chair)	2018
Nicholas Bull	2015
Jakob Sigurdsson	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,

As Chair of the Audit and Risk Committee, it is my pleasure to present its report for the year ended 31 December 2021. This report sets out how the Committee has discharged the duties delegated to it by the Board, and the key topics and findings during the year.

There is an increased scrutiny on the work being undertaken by audit committees and auditors as the corporate governance requirements in this area are reviewed and regulatory change is expected. While the duties of the Committee are currently unchanged, we have continued to focus on improving internal controls to continue to strengthen our business in a context of continued global uncertainty. The Committee's annual work plan is aligned to the Group's financial reporting cycle and ensures appropriate coverage of both the required areas as well as identifying items that are relevant to the business' priorities and the external environment. In 2021, the Committee continued to focus on reviewing and challenging the assumptions and judgements in relation to the preparation of published financial information and, in particular, the going concern and long-term viability methodology and disclosures. You can read more about this on page 85 of this report.

Our review of internal controls has continued to encompass a biannual review of internal controls over financial reporting, and there has been a focus on Human Resources-related controls and policies in 2021, as well as a continuation of the monitoring of the application of controls in India, which was a focus area in 2020. Also this year, the Committee has continued to review Environmental, Social and Governance (ESG) external reporting requirements and has considered the Task Force on Climate-related Financial Disclosures (TCFD) reporting regime in detail.

Audit and Risk Committee report continued

The business understands the importance of the role of our internal audit function, and the value that an effective third line of defence provides is well recognised. Accordingly, this year the Committee endorsed the appointment of the Chartered Institute of Internal Auditors (IIA) to undertake a review of our Internal Audit function and you can read more about their findings on page 87. In accordance with the requirements under the UK Corporate Governance Code 2018 (Code), the Committee again undertook an internally facilitated effectiveness review process and this approach extended to the review of the effectiveness of the external audit function.

David Gosnell stood down as a member of the Committee following his appointment as Chair of the Board, in line with the requirements of the Code. David still regularly attends the Committee in his new role when appropriate.



Anne Fahy

Chair, Audit and Risk Committee
2 March 2022

Highlights of 2021

- ▶ Ensuring that the disclosures made in response to the recommendations of the TCFD are appropriate and that the assumptions used in the financial statements are consistent with these disclosures (note 1, note 13).
- ▶ Assessing the findings of the independent review of the Internal Audit function.
- ▶ Monitoring the application of certain Human Resources policies and controls to ensure Group-wide consistency, and conducting focussed deep dives when appropriate.

Areas of focus for 2022

- ▶ Audit tender.
- ▶ Develop an assurance policy.
- ▶ Developing regulatory environment for audit.
- ▶ Deep dive into cyber security.

Membership and meetings

During the year, the Committee met four times and held one additional call, and all Committee Members attended the maximum number of meetings possible. Further details of individual Directors' attendance can be found on page 80. The Committee met privately with the external auditor and with the Internal Audit function. 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 Chair and Group Chief Executive may also attend meetings. The Head of Secretariat acts as Secretary to the Committee. The Chair 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.

The Committee meetings are scheduled to ensure that they are arranged 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 2021, Anne Fahy and Nicholas Bull were the members of the Committee determined by the Board as having recent and relevant financial experience. You can read more about the skills and experience of the members of the Committee on pages 72 to 74.

Going concern and viability statements

The Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 59. 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 94 and confirmed its satisfaction with the methodology including appropriateness of sensitivity testing.

During the year, the Company received the Financial Reporting Council's letter regarding "Viability and Going Concern Thematic review: Annual report and accounts to 31 December 2020" and was pleased to note that there were no questions or queries raised. The Committee continues to focus on both the basis of preparation of the going concern and viability analysis as well as the external disclosures, to ensure they are prepared in line with current Financial Reporting Council guidance.

Fair, balanced and understandable

In line with the requirements of the Code, the Committee considered whether the Annual Report is 'fair, balanced and understandable' using the established processes to ensure its input was appropriately timed. The Committee members were consulted at various stages during the drafting process and gave input to the planning process, including the review processes undertaken internally and by the Company's advisers. The Committee received a full draft of the Annual Report and provided feedback on it, highlighting the areas that would benefit from further clarity or balance. The draft report was then amended to incorporate this feedback ahead of the February 2022 Committee meeting.

In this respect the Committee focussed on ensuring consistency and completeness in non-financial reporting (for example, ESG), new reporting requirements including TCFD, principal risks and uncertainties and reviewing the use of alternative performance measures and their appropriateness in aiding users of our financial statements to better understand our performance year-on-year. On the basis of this work, 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
Exceptional and acquisition-related items	In 2021, exceptional and acquisition-related items of \$13.7m have been recorded in operating profit; the disclosures in note 4 provide further details. The Committee assessed management judgements, took into account the views of the external auditor and concluded that the accounting treatment was appropriate given the one-off nature of the events.
Pension matters – valuation of obligations and recognition of surpluses	At 31 December 2021, the Group's IAS19 Pension surplus was \$21.1 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 also considered the recognition of surpluses in respect of both the UK and US funded plans. The Committee is satisfied that recognition of such surpluses 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 \$11.2 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 2021 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 decreased from 39% to 31%, the Committee also considered the Group's uncertain tax provisions and deferred tax assets, which amount in total to \$20.2 million and \$20.7 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.

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 46 to 58 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 regular 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 monitoring ensures timely identification of issues and formal tracking of remediation plans. During the year, the Committee continued to receive detailed reports on internal controls over financial reporting and these had been extended to a summary of the findings of a new stewardship review process that had been undertaken in respect of the majority of large markets. These included analytical reviews of balance sheets, deep dives into key financial risks and judgements, completion of balance sheet reviews and a review of previous internal audit follow-up actions. Instances where the effectiveness of internal controls were considered insufficient, or where there was opportunity for enhanced controls, were discussed during the year with updates being provided when required. In particular, the Committee received several updates from the Chief Human Resources Officer reviewing how the Group was applying Human Resources policies and controls, with a focus on identifying areas where Group ways of working were being inconsistently applied internally, and also reviewing the oversight of third-party contractors. Remediation plans are monitored closely on an ongoing basis, including a further review of the application of controls in India to ensure these remained on track after interventions in 2020. The Committee also reviewed cyber security and data protection controls noting the importance of mitigations in this area.

At its December meeting the Committee, on behalf of the Company, 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 reviews the minutes of the Group Risk Management Committee meetings regularly, and discusses any relevant matters that have arisen with management.

In relation to ESG reporting and disclosures, the Committee is provided with an annual update where it has the opportunity to challenge and give direction. Specifically, the Committee reviewed the outcomes of an internal assurance assessment of the Group's ESG reporting systems and controls, in order to understand the robustness of these procedures as the use of this data by many stakeholder groups becomes more frequent and important. In addition, the Committee has reviewed the process behind, and resulting new disclosures around, TCFDs and provided feedback to management on the proposed disclosures.

Internal audit

The Head of Group Internal Audit agrees the Internal Audit function's programme of work annually in advance with the Committee and this is reviewed regularly by the Committee to ensure this achieves appropriate coverage of key activities during the continued Global uncertainty. 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. This year, the IIA undertook an evaluation of the effectiveness of the Internal Audit function, which included an independent assessment of the function against global standards, and the results were considered by the Committee. The evaluation concluded that the Internal Audit Function was highly regarded and operated to a high professional standard following stakeholder feedback. Opportunities to further enhance planning and co-ordination activities were identified. The Internal Audit function will incorporate the relevant recommendations into future work plans in agreement with the Committee.

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. In addition to Internal Audit's review of the IT controls, data analytics were utilised to identify exceptions in expense management. A review of the level of awareness of the Group's Data Protection policies, as well as that of our whistleblowing channel, was also conducted. The Internal Audit function continued to conduct its investigations remotely during 2021 and the Committee monitored delivery and the findings to ensure there was consistency of approach on audit delivery. There was also an increased focus on identifying further ways to make use of data analytics by Group Internal Audit to provide greater assurance. For any control findings identified as part of any investigation or audit, remediation plans were put in place and the Committee reviewed these and the adequacy of the implementation measures.

Internal audit grade the severity of any findings in their reporting to the Committee, with significant control findings being defined as a material deficiency in the design or implementation of a control. This might include a risk of material misstatement of financial information where controls in operations are largely deficient or where there is a pervasive violation of policies and procedures. No significant control findings were identified during the period.

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.

Audit and Risk Committee report continued

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. The Committee annually reviews the policy on non-audit fees to ensure it complies with latest FRC Ethical Standards.

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 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.

During 2021, the external auditor provided services in relation to the Group's interim results and also provided 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. Non-audit fees presented as a percentage of total audit fees is 10%. 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 group is in compliance with the provisions of the Competition & Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. Provisions include audit tendering at least every 10 years and 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. The Board now intends to undertake a competitive tender process for the external audit during 2022, with the intention of the Board appointing a new audit firm for the year ended 31 December 2023. 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 auditor tendering and rotation requirements set by the UK Corporate Governance Code, the Competition & Markets Authority and the European Commission 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 2021, 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 2022.

Assessment of the effectiveness of the Committee

The Committee effectiveness in respect of the year ended 31 December 2021 was evaluated using an internal questionnaire in line with the process set out on page 81. The Committee considered that the key points that were identified in the previous year's assessment had been adequately addressed. The 2021 evaluation indicated that the Committee was working effectively and identified opportunities for the 2022 Committee work plan including development of an assurance policy.

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:

- develop an assurance policy;
- conduct a deep dive into cyber security; and
- continue to monitor legislative and regulatory changes that may impact the work of the Committee and consider the impact of proposed audit industry changes.

Signed on behalf of the Audit and Risk Committee by:

Anne Fahy

Chair, Audit and Risk Committee
2 March 2022

Nomination Committee report

Name	Member since
David Gosnell (Chair)	2015
Rajiv Sharma	2015
Nicholas Bull	2015
Anne Fahy	2018
Echo Lu	2017
Fran Philip	2016
Jakob Sigurdsson	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 2021

- ▶ Smooth transition of Chair and Chief Financial Officer roles.
- ▶ Implementation of new Non-Executive Director review process.
- ▶ Development of enhanced skills matrix.
- ▶ Executive succession planning.

Areas of focus for 2022

- ▶ Continue to monitor and foster successful performance culture.
- ▶ Further enhancement of diversity and inclusion in our talent pipeline.



Dear Shareholder,

I am pleased to present this report of the Nomination Committee. 2021 has been another year of change for the Company. In May 2021, I became Chair of the Board following Mike Clasper stepping down from the Board at the AGM and we took the opportunity to review and refresh the composition of the Remuneration Committee and the Audit and Risk Committee, in line with the requirements of the 2018 UK Corporate Governance Code (Code), as detailed on page 69. In April, Jackie Callaway succeeded Simon Boddie as Chief Financial Officer of the Company and, with effect from 1 January 2022, Rajiv Sharma stepped down as a member of the Nomination Committee.

As the recruitment processes for these Board changes were concluded last year, the Nomination Committee has taken the opportunity to reflect on the impact that these transitions had on the composition and dynamics of the Board, and has developed an enhanced skills matrix to ensure that there is a detailed and robust record of the current strengths on the Board. You can read more about this on page 90.

The Committee has also implemented a new Non-Executive Director review process in respect of Non-Executive Directors who have served on the Board for more than three years. You can read more about this on page 90. The process has provided detailed insights into the strengths and developmental opportunities amongst our highly skilled and experienced Board and these are areas that we will continue to consider in 2022.

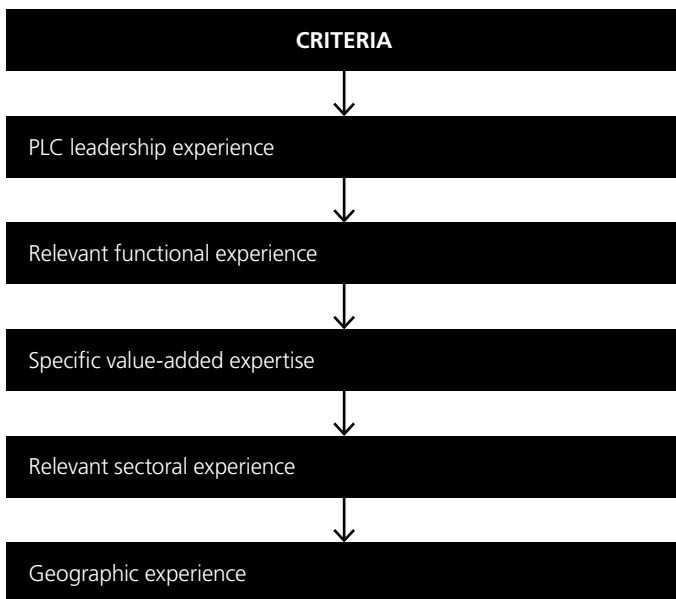
In addition to these initiatives, the Committee continued to fulfil its core responsibilities of overseeing executive succession plans, reviewing the structure of the Board Committees and reviewing its own effectiveness.

During the year, the Committee met twice and all Committee Members attended the maximum number of meetings possible. Further details of individual Directors' attendance can be found on page 80. You can read more about the skills, tenure and experience of the members of the Committee on pages 72 to 74.

Nomination Committee report continued

Skills matrix

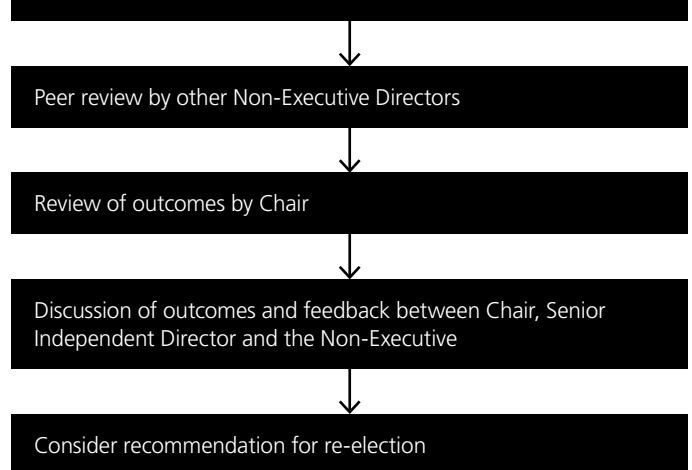
Ensuring the right balance and diversity of skills and experience on the Board creates the conditions for the success of the Group. Reviewing the strengths of existing Board members as well as identifying any potential opportunities to enhance the overall portfolio of talent on the Board and in senior management is a key responsibility of the Nomination Committee. During 2021, the Committee agreed an enhanced skills matrix to provide a detailed and transparent assessment of the current skill set on the Board. A summary of the matrix is set out below. The completed matrix will help inform succession planning and future recruitment.



Non-Executive Director review process and training

In 2021 the Nomination Committee implemented an additional rigorous review process in respect of Non-Executive Directors' performance and contribution to the Board that will be undertaken every three years, ahead of recommending their re-election at their fourth and seventh AGMs. These are conducted by way of an online questionnaire, comprising questions which have been pre-approved by the Board, to be completed by the rest of the Non-Executive Directors. The Chief Human Resources Officer then shares the confidential results on an anonymous basis with the Chair, who has an opportunity to review and add their opinion before holding a feedback discussion with the Non-Executive under review, to also be attended by the Senior Non-Executive Director. The process was trialled with a review of Nicholas Bull, who had served on the Board for almost six years. Further reviews of Anne Fahy, Echo Lu and Fran Philip, each of whom had recently completed or was approaching three years of service on the Board, were undertaken. Jakob Sigurdsson's review will take place before he has completed his initial three-year term, prior to recommending his re-election to shareholders.

PROCESS TO BE UNDERTAKEN EVERY THREE YEARS



I am pleased with the open and honest feedback that has been received and shared. The Non-Executive Directors that have undertaken this process to date have responded positively and we will continue to focus on any areas identified for development in 2022.

Succession planning

The Committee, on behalf of the Board, regularly assesses the composition of the Board and its Committees 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. Neither the Chair nor any of the Non-Executive Directors has exceeded the maximum nine-year recommended term of service set out in the Code. 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. Following the announcement of my appointment to Chair of the Board, the Committee reviewed and refreshed the composition of the Remuneration Committee, including appointing a new Chair and identifying an appropriate new member. It was agreed that Echo Lu would succeed me as Chair of the Remuneration Committee, having served on the Committee from December 2017 and noting her deep executive experience in people-related matters. Nicholas Bull was identified as being the best candidate to join the Remuneration Committee and brought the benefits of his strong interest in ESG matters and a cross-over in membership of the Nomination and Audit and Risk Committees. Both Echo and Nicholas commenced their new roles on 1 May 2021. I also stepped down as a member of the Audit and Risk Committee, in line with the requirements of the Code, and the Nomination Committee judged that it was not necessary to appoint a new member to that Committee at that time.

The Committee and Board have continued to monitor the GET and senior management talent pool to ensure that succession planning for business-critical roles is proactively reviewed. The Committee has continued its regular bi-annual review of the progress on CEO succession plans. There were also two comprehensive talent reviews and a succession planning update, including a review of the talent pipelines for GET succession that provided deeper insights into the talent in the organisation, presented to the Board during the year.

Diversity

Coats has a well-established commitment to ensuring diversity and balance at Board level and below. The Board supports the recommendations of the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity. The Committee continues to focus on these important areas and I am pleased to confirm that we have 50% female representation on the Board and have two Directors from an ethnic minority background. The Board has had several discussions about how to help develop the talent pipeline in certain regions to further facilitate diversity in our succession plans and we will continue to focus on this in 2022. In November, the Company launched a project to expand our collation and analysis of our Diversity, Equity and Inclusion (DEI) data to support the development of our DEI strategy and reporting. The Company has also collaborated with certain customers to share DEI case studies. The way in which people want to work has changed, triggered partially by the changes enforced by the pandemic. We recognise the benefits of a truly engaged workforce and note the role that flexible working plays in keeping and attracting talent. Coats has a flexible working policy.

The gender diversity across our Group is shown below.

	Male	Female
All employees	58%	42%
GET and direct reports	72%	28%
Senior managers	77%	23%
Board	50%	50%

You can see more information on the gender split across the Board, our senior management team (which is defined as employees that are grade three or above in the organisation) and the Group as a whole in our Sustainability Report, which is available on our website (www.coats.com/sustainability). Our Board Diversity Policy (Policy) can be viewed on our corporate website (www.coats.com/about/corporate-governance/board-composition) and it sets out an indicative range of diversity criteria, that will be considered alongside merit and other objective factors, when recruiting to ensure the continued calibre of the Board while being an effective driver of the spirit of true diversity, having due regard to gender, ethnicity, social background, skill set and breadth of experience.

Our workforce diversity policy is included in our Coats Key People Principles and mirrors the intention of the Policy. You can also access these on our website (www.coats.com/Sustainability/Policies-and-downloads).

Independence and overboarding

During the course of the year, Board members continued to inform the Chair of any proposed new external appointments and these were considered and approved by the Board. The Company Secretary maintains a register of Interests and Conflicts to track the commitments of the Directors and ensure these are in line with overboarding guidance. The Committee is satisfied that the external commitments of its Chair 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.

The Chair was considered to be independent on appointment and is committed to ensuring that the Board comprises a majority of independent Non-Executive Directors who maintain constructive and challenging debate in the boardroom, balanced alongside the need to ensure continuity on the Board. The Company maintains the terms of appointment of the Chair and Non-Executive Directors to ensure that they continue to meet the requirements of the Code. As such, the Board considers that all of its Non-Executive Directors continue to demonstrate independence.

Committee performance and effectiveness

The Committee's effectiveness in respect of the year ended 31 December 2021 was evaluated using an internal questionnaire in line with the process set out on page 81. The Committee also considered the key points that were identified in the previous year's assessment. The 2021 evaluation indicated that the Committee's ways of working, composition and dynamics were working effectively and identified opportunities for the 2022 Committee work plan including further development of succession plans for GET and below GET roles and briefings on new and emerging trends.

“

Signed on behalf of the Nomination Committee by:

David Gosnell
Chair, Nomination Committee
2 March 2022

Directors' report

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

Annual General Meeting

The Annual General Meeting (AGM) of the Company will be held on 18 May 2022 at 2.30pm at FTI Consulting, 200 Aldersgate, London EC1A 4HD.

Corporate Governance Statement

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, comprises 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 72 to 74 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 104 and 105.

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 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. The Company adopted new Articles at the AGM held in May 2021.

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 75 to 79. Information on compensation for loss of office is contained in the Directors' Remuneration Report on page 104.

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 the Board on 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 145,255,457 (representing approximately 10% of the Company's issued shares as at the latest practicable date before the publication of the notice of the Annual General Meeting held in May 2021) of its own Ordinary Shares was granted at the 2021 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 £48,370,000 was granted at the 2021 AGM. No shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2021 was approximately £72,628,519 divided into 1,452,570,385 Ordinary Shares.

Since 31 December 2021, 0 new shares have been issued as a result of the exercise of share options by the Company's share option scheme participants and the total issued share capital at 1 March 2022 is 1,452,570,385 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 2021 is set out in the Directors' Remuneration Report on page 105.

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 2021*	As at 1 March 2022*	Nature of holding
Liontrust Investment Partners LLP	10.52%	10.52%	Direct
Kempen Capital Management N.V.	7.49%	7.49%	Indirect
Mondrian Investment Partners Limited	5.88%	5.88%	Indirect
M&G Plc	5.30%	5.30%	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 (2020: £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 via email through the Group ethics channel or, from 2022, via an externally hosted web service whistleblowing hotline. '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 2021, there were 98 whistleblowing concerns raised (2020: 83). Of these concerns raised, following investigation 30% (2020: 24%) of the closed cases were upheld and 14 cases are still under review. In the case of substantiated concerns, disciplinary action, up to and including termination, was taken whenever there was any evidence of misdemeanour and training and enhanced controls were implemented wherever appropriate.



Directors' report continued

Going concern

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

In addition, note 32 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 have 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 124 and movements in reserves are set out in note 27 to the financial statements.

The Board is mindful of the importance of returns to shareholders and, as a result of the strength of the Group's balance sheet, the strong growth and recovery out of the Covid pandemic, and its confidence in the strategy and growth outlook for the Group, it is pleased to propose a final dividend of 1.50 cents per share (2020 final dividend: 1.30 cents). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2022 to ordinary shareholders on the register at 29 April 2022, with an ex-dividend date of 28 April 2022. Alongside the interim dividend of 0.61 cents per share, this makes a total of 2.11 cents per share for the full year 2021.

Auditor

A resolution to reappoint Deloitte LLP as auditor will be proposed at the 2022 AGM. More information about the consideration of an audit tender can be found on page 88 in the Audit and Risk Committee Report. 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 2023.

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 198.

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	188
Likely future developments in the business	9, 14 to 15
Exposure to price risk, credit risk, liquidity risk and cash flow risk	176
Research and development	14 to 15
Information on financial instruments	176
Environmental policy	12
Employment of disabled persons	36
Employee involvement	26 to 29
Stakeholder engagement	20 to 25
Diversity policy	91 (and on our website)
SECR energy and carbon reporting	31 to 33
Greenhouse gases and environmental disclosures	32 to 33, 38 to 45

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

On behalf of the Board

Stuart Morgan

Company Secretary
2 March 2022

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 2 March 2022 and is signed on its behalf by:

Rajiv Sharma
Group Chief Executive
2 March 2022

Remuneration Committee report

Committee members

Name	Member since
David Gosnell (Chair until May 2021)	2015 (until May 2021)
Echo Lu (Chair from May 2021)	2017
Nicholas Bull	2021 (from May 2021)
Fran Philip	2016

Principal 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

- ▶ 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

Highlights of 2021

- ▶ Decision to increase weighting of Sustainability performance measures in 2022 LTIP award
- ▶ Harmonisation of UK pension policy to commence in 2022
- ▶ Review of remuneration policies in Coats' major markets
- ▶ Development and adoption of a global Living Wage policy

Areas of focus for 2022

- ▶ Consultation with stakeholders prior to the next Remuneration Policy approval resolution in 2023
- ▶ Continuing review of remuneration policies for all employees



I am pleased to introduce the Directors Remuneration Committee Report for 2021. 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/about/corporate-governance/board-committees. The Annual Report on Remuneration will be subject to an approval Resolution at the AGM on 18 May 2022.

Overview of 2021

The Remuneration Policy was implemented in 2021 as the Committee originally intended.

Coats delivered a strong performance overall in 2021 with a recovery in Sales across the majority of business units, increased levels of profitability and high levels of cash collection. The annual bonus for 2021 has achieved the stretch targets established and will pay at maximum for the three group financial metrics.

The Long-Term Incentive award granted in 2019 for the three-year period to the end of 2021 did not achieve its minimum threshold targets and the award has not vested. The global Covid pandemic has clearly had a material negative impact on 2020 business performance and specifically on free cash flow and profit growth and this is reflected in the overall level of vesting. The Committee did not make any adjustments to the awards to reflect the impact of Covid on business performance.

Simon Boddie retired from the Board on 31 March 2021. Following his retirement he was treated as a good leaver for the purposes of all Long-Term Incentive Plan (LTIP) and Deferred Annual Bonus Plan (DABP) awards. Any unvested LTIP awards were reduced pro-rata to reflect the period of employment to 31 March 2021 and remain subject to the original performance conditions. As we announced in 2020 the Company adopted a policy that required, following termination of employment, a minimum level of shareholding should be retained for a 2 year period based on the lower of the Executive Directors shareholding requirement (currently 200%) or the actual shareholding at the date of leaving.

Simon Boddie's shareholding was already in excess of this level and therefore the 200% level continues to apply and is monitored by the Company. He received no compensation for loss of office.

The Committee also reviewed the weighting and composition of the performance measures in the LTIP awards to ensure that they remained aligned to the Company's strategic goals and objectives. The Committee concluded that the measures reflected in the LTIP grant in 2021 (EPS growth, cumulative Free Cash Flow generation, Total Shareholder Return and Sustainability objectives) remained appropriate. However, given our strategic focus on environmental, social and governance issues and, increased stakeholder expectations, we have decided to increase the weighting of sustainability measures from 10% to 20% in 2022. The increased weighting is also indicative of the increasing potential commercial opportunities that exist for Coats as we develop products and services that directly support our customers in this area. The cumulative Free Cash Flow measure was reduced from 30% to 20% but is still a key performance metric and continues to represent a material proportion of the annual bonus with a weighting of 20% of the total bonus.

As we announced in 2019 and 2020 the pension benefit policy for Executive Directors was aligned to the average for the UK workforce. Jackie Callaway's pension benefit on recruitment was offered at a level of 12% of salary and Rajiv Sharma's pension benefit will be reduced to 12% after 31 December 2022. The Company currently offers a number of different pension benefit levels in the UK with some employees receiving less than 12% and others receiving more than this. In order to achieve full alignment and, to standardise the approach, the Committee have approved a process to harmonise the pension benefit level for all UK based employees to a standard employer contribution level of 12% by July 2023. This will be accomplished in two stages with an increase to a minimum level of 10% by July 2022 and subsequently a minimum 12% by July 2023. For the majority of employees this will result in an increase in pension benefits over the two year period.

The Committee takes its responsibility to engage with stakeholders under Provision 40 of the Corporate Governance Code very seriously and during 2022 in the course of conducting in-depth reviews in each of our major markets the Committee reviewed the details of the application and operation of the Company's remuneration policy to ensure that local remuneration terms were fair, equitable, and aligned to the company's principles and were market competitive. The initiative to achieve Great Place to Work accreditation in our markets is directly linked to achieving high levels of engagement from our employees and I am delighted with the progress that has been made to date. In addition, the Committee reviewed the operation of the Company's Living Wage policy globally to ensure that all our employees received at least, and very often materially more, fair compensation that enabled them to support themselves and their families.

Outlook for 2022

During 2022 we intend to implement the actions referred to above including the increase to the LTIP weighting to focus on sustainability and to implement the first phase of the UK pensions policy harmonisation.

The AGM in 2023 will require a new Remuneration Policy approval Resolution and during 2022 the Committee will seek the views of all stakeholders and shareholders prior to proposing any amendments to the policy. Consultation and communication with our shareholders and stakeholders will be an important part of this review process.

There is no doubt that the forthcoming year will, like 2020 and 2021, come with its own unique pressures. The Company will continue to face macroeconomic and operational challenges that will mean it will be even more important to attract, retain and incentivise the key talent that it needs to generate shareholder value.

Committee Changes

This is my first year of writing the introduction to this report as Remuneration Committee Chair following David Gosnell's appointment as Chair of Coats Group plc in May 2021. I would like to thank David for his leadership of the Committee and his support, guidance and encouragement as I have assumed my new responsibility. I would also like to welcome Nicholas Bull to the Committee and to thank him and Fran Philip for their on-going support.



Echo Lu

Chair, Remuneration Committee
2 March 2022

“Coats delivered a strong performance overall in 2021 with a recovery in Sales across the majority of business units, increased levels of profitability and high levels of cash collection”

Echo Lu

Chair, Remuneration Committee

Remuneration Committee report continued

Remuneration at a glance

The Remuneration Policy is intended to take into account the need to recruit and retain Directors who have the suitable skills and experience to perform in the interests of the Company, its stakeholders and its shareholders, while paying no more than is necessary.

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

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

Our remuneration principles

Competitive with the local market and industry where we recruit from

Rewards the achievement of personal goals for each role

Linked to company performance over short and long term

Fair & transparent rewards linked to clear measures and aligned to business strategy and goals

Aligned to the principles and operation of the remuneration policy for the wider workforce

Remuneration Policy summary (Executive Directors)

Element	Key features of policy
Fixed base and benefits	<ul style="list-style-type: none"> Base salary is benchmarked against the FTSE250 and a selected comparator group of similar size and complexity Benefits benchmarked to local market practice Pension benefits aligned to the workforce where the role is based
Annual bonus	<ul style="list-style-type: none"> Maximum award opportunity: 150% of base salary A proportion of annual bonus is subject to a mandatory deferral. Deferred bonuses are converted into share awards and are released after a three-year retention period so that the value of annual incentives is significantly aligned to the longer term performance of the Company
LTIP	<ul style="list-style-type: none"> Maximum LTIP award opportunity: 175% of base salary (200% exceptional circumstances) Awards are discretionary and may be made annually Vesting is 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
Shareholding Requirement	<ul style="list-style-type: none"> 200% of salary within five years of appointment Applies for 2 years post termination of employment based on the lower of the shareholding requirement or the actual shares held on termination

Remuneration release profile

	2021	2022	2023	2024	2024
Base salary/Benefits/Pension	Cash & benefits				
Short-term incentive	Cash	Deferred shares			
Long-term incentive	Performance Period			Holding Period	

Total figure remuneration for 2021

			Total remuneration (£000)
Jackie Callaway	57%	43%	£967.9
Rajiv Sharma	48%	52%	£1,758.5

Key

■ Fixed ■ Annual bonus ■ LTI (Nil for 2021)

Summary implementation in 2021

Fixed remuneration	Implementation in 2021
Base salary 1 July 2021 review	<ul style="list-style-type: none"> Increase of 3% for Rajiv Sharma and Jackie Callaway Aligns to the average for the UK workforce of 3.1%
Pension benefit Aligned to the UK workforce	<ul style="list-style-type: none"> For Rajiv Sharma fixed at £122,400 per annum until 31 December 2022 then 12% thereafter For Jackie Callaway 12% of salary
Annual bonus Performance measures; Sales: 30% EBIT: 30% Free Cash Flow: 20% Personal objectives: 20%	<ul style="list-style-type: none"> For Rajiv Sharma a maximum bonus of 150% of salary with a deferral of 50% of the outcome in shares For Jackie Callaway a maximum bonus of 115% with a deferral of 40% of the outcome in shares Outcomes for 2021 shown on page 101
Long term incentive Performance measures: EPS growth: 40% Cumulative Free Cash Flow: 30% Total Shareholder Return: 20% Sustainability: 10%	<ul style="list-style-type: none"> Grant of 175% of salary to Rajiv Sharma Grant of 150% to Jackie Callaway 3 year performance period with subsequent 2 year holding period Targets for 2021-2023 on page 103

Directors' remuneration report

FOR THE YEAR ENDED 31 DECEMBER 2021

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 18 May 2022. The current Remuneration Policy applicable to the year ended 31 December 2021 was approved by shareholders at the AGM on 11 June 2020 and can be found in the Corporate Governance section at www.coats.com/about/corporate-governance/board-committees.

Executive Directors

Three Executive Directors were employed during 2021. 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 retired from the Board on 31 March 2021. Jackie Callaway was appointed as a Director on 1 December 2020 and succeeded Simon as Chief Financial Officer following his retirement.

Single total figure for Executive Directors' remuneration for 2021 (audited information)

£000	Simon Boddie		Jackie Callaway		Rajiv Sharma		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Base salary	109.0	414.2	385.8	31.7	621.3	581.4	1,116.1	1,027.3
Benefits	8.8	35.8	15.7	1.3	47.4	37.7	71.9	74.8
Other	–	–	100.0	–	50.0	–	150.0	–
Pension	21.8	87.2	46.3	3.8	122.4	122.4	190.5	213.4
Total Fixed	139.6	537.2	547.8	36.8	841.1	741.5	1,528.5	1,315.5
Annual bonus	125.4	32.7	420.1	–	917.4	45.9	1,462.9	78.6
LTIP	–	–	–	–	–	–	–	–
Total Variable	125.4	32.7	420.1	–	917.4	45.9	1,462.9	78.6
Total	265.0	569.9	967.9	36.8	1,758.5	787.4	2,991.4	1,394.1

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.
- Other: as disclosed in last year's report Jackie Callaway received £100,000 as compensation on recruitment for the loss of an incentive payment from her former employer; this was paid on the condition that at least the net amount received would be used by her to purchase shares in Coats; this condition has been met. From 1 January 2022 Rajiv Sharma is based in Singapore; the company paid a relocation allowance of £50,000 in connection with this change in work location; no other benefits are payable in connection with this relocation.
- Annual bonus: is the total value in cash and shares of the annual bonus that is attributable to each year. Fifty percent of any 2021 bonus outcome for the Chief Executive Officer and forty percent for the current Chief Financial Officer will be awarded in shares under the terms of the Deferred Annual Bonus Plan.
- 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. Jackie Callaway's pension benefit is based on 12% of salary. Rajiv Sharma's pension benefit is fixed at its current level and will not increase with any subsequent salary review until 31 December 2022. Thereafter Mr Sharma's pension benefit will reduce to 12% of salary. By July 2023 the minimum UK pension contribution for all UK employees, regardless of seniority, will be standardized at 12% of salary. Any employee who receives a pension benefit above this level will have their benefit value protected. This phased approach will, overall, result in increases in pension benefit for a majority of the UK employees and will result in alignment of the pension benefits for all UK based employees.
- Rajiv Sharma is a Non-Executive Director of Senior plc and received fees of £53,000 during the year. Simon Boddie is a Non-Executive Director of Page Group plc and LTG plc. He received fees of £17,575 and £12,500 respectively during the period that he was a Director. The policy of the Board is that Directors are entitled to retain any fees in respect of external appointments.

Annual bonus outcome 2021 (audited information)

The annual bonus for 2021 was determined in accordance with the details provided in the 2020 Directors' Remuneration Report. Details of the bonus measures and opportunities are provided in the table below.

Annual bonus 2021	Weighting	Bonus opportunity (% of max bonus)			Performance achieved in 2021 (% of max bonus)	
		Threshold	Target	Maximum	Jackie Callaway	Rajiv Sharma
Performance Measure						
Group Sales	30.0%	0%	15.0%	30.0%	30%	30%
Earnings Before Interest and Taxation (EBIT)	30.0%	0%	15.0%	30.0%	30%	30%
Free Cash Flow (adjusted) (FCF)	20.0%	0%	10.0%	20.0%	20%	20%
Individual objectives	20.0%	0%	10.0%	20.0%	13.3%	17%
Total	100.0%	0%	50.0%	100.0%	93.3%	97%
Maximum Bonus (% of salary)					115%	150%
Total (% of salary)					107.3%	145.5%

Simon Boddie's pro-rata annual bonus for the three months to 31 March 2021 was calculated on the basis of the following weightings; Sales (37.5%), EBIT (37.5%) and FCF (25%); effectively the weighting for individual objectives was removed. Payment at threshold, target and maximum was on the same basis as shown above. His bonus will be paid fully in cash.

The measures were selected to incentivise a balance of outcomes that reflected the strategic priorities for the Group at the beginning of 2021. In particular these were to deliver a strong performance in sales with an acceptable level of margins through efficiency 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 2021	Weighting	Bonus targets \$m			Performance achieved in 2021
		Threshold	Target	Maximum	
Performance targets					
Group Sales (US\$m)	30.0%	1,231.2	1,368.0	1,436.4	1,529.0
EBIT (US\$m)	30.0%	128.0	160.0	176.0	196.7
FCF (adjusted)	20.0%	60.0	75.0	85.0	112.4
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 2021 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 (\$25.2 for Sales, \$3.7m for EBIT, and \$-0.5m for FCF respectively). For the 2021 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 2021 are reflected in the section below. No discretionary adjustment has been applied in assessing performance outcomes.

Personal objectives linked to 2021 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 improve customer experience, measure success and establish a segmental end to end supply chain; to deliver the Group's 2021 sustainability targets concerning recycled thread value, water usage, compliance with effluent and emissions standards and achievement of the Group's social objectives; to deliver organisational changes and build capability.

Jackie Callaway: To successfully refinance the Group's \$350m syndicated bank facility; to deliver operational stability in the North and Central American business unit cluster and to drive sustainable growth; to lead the Finance function processes to analyse the gross margin performance for each cluster and to support operational delivery of improvements.

Directors' remuneration report continued

As announced in last years report, Simon Boddie retired from the Board on 31 March 2021. His bonus award for 2021 was pro-rata based on three months service and the Committee agreed that, subject to satisfaction with the orderly transition to his successor, his bonus would be based fully on company financial measures on the same basis as the other Executive Directors and not include any element of personal performance.

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.

Long Term Incentive award vesting (audited information)

On 4 March 2019 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 2019 to 31 December 2021 (referred to as LTIP 2019).

The performance measures were based upon the Total Shareholder Return Performance (TSR), compound annual growth (CAGR) in Earnings Per Share and cumulative Free Cash Flow relating to Coats Group plc. The achievement of the Long Term Incentive Plan performance measures and the consequent vesting of the award is shown in the table below. The award has not vested.

LTIP 2019: Performance period 1 January 2019 to 31 December 2021

Measure	Weighting	Threshold	Mid	Maximum	Actual
Compound Annual Growth in Attributable Profit	40.0%	5.0%	10.0%	15.0%	-0.3%
Vesting % of total award		10.0%	25.0%	40.0%	0%
Cumulative Free Cash Flow over 3 years	40.0%	\$287.1m	\$317.1m	\$347.1m	\$247.2m
Vesting % of total award		10.0%	25.0%	40.0%	0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5th Percentile	Upper Quartile	26th Percentile
Vesting % of total award		5.0%	12.5%	20.0%	0%
Total	100.0%	25.0%	62.5%	100.0%	0%

Share awards granted in 2021 (audited information)

The following share awards were granted to Executive Directors during the financial year ended 31 December 2021. The targets for achieving minimum performance for each measure, where these apply, are shown in the table on page 103.

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
Jackie Callaway	5-Mar-21	942,148	£570,000	150%	£0.605	25%	1 Jan 2021 to 31 Dec 2023	5-Mar-24
Rajiv Sharma	5-Mar-21	1,770,247	£1,071,000	175%	£0.605	25%	1 Jan 2021 to 31 Dec 2023	5-Mar-24

The share price used to calculate the number of options awarded under the terms of the Coats Group plc Long Term Incentive Plan is based on the mid-market closing price for the day immediately preceding the grant date, which was £0.605 for 5 March 2021.

Awards were granted on 5 March 2021 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.

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 2021 (LTIP 2021) 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 2021 (LTIP 2019).

LTIP 2021 Measures	Weighting	Threshold	Mid	Maximum
Underlying Earnings Per Share in 2023	40%	6.0 cents	7.0 cents	8.0 cents
Vesting % of total award		10.0%	25.0%	40.0%
Cumulative Free Cash Flow over 3 years	30%	\$205m	\$242.5m	\$280m
Vesting % of total award		7.5%	18.75%	30.0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20%	Median	62.5th Percentile	Upper Quartile
Vesting % of total award		5.0%	12.5%	20.0%
Sustainability Goals (see details below)	10%	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 achievement of 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 ie 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 also included. The specific targets are: Water: by 2023 to achieve a 40% reduction, from a 2018 baseline, of water usage per kilogram of thread production.

Energy: by 2023 to achieve a 7% reduction, from a 2018 baseline, of kWh per kilogram of product made.

Effluent and emissions: by 2023 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 material.

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

Directors' remuneration report continued

Non-Executive Directors

There was no increase in the base fee of £60,000 per annum which has remained at the same level since 1 October 2013. The fee for the Chair payable to David Gosnell following his appointment on 19 May 2021 was also not increased from the level paid to his predecessor.

Single total figure for Non-Executive Directors' remuneration for 2021 (audited information)

Non-Executive Directors, excluding the Chair, 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
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	
Mike Clasper	104.2	237.5	–	–	3.2	–	–	–	107.4	237.5	Retired 19-May-21
Nicholas Bull	60.0	57.0	10.0	9.5	4.2	–	1.5	–	75.7	66.5	
Anne Fahy	60.0	57.0	12.5	11.9	–	–	1.5	–	74.0	68.9	
David Gosnell	177.3	57.0	4.2	11.9	0.6	–	–	–	182.1	68.9	
Echo Lu	60.0	57.0	8.3	–	0.8	–	1.5	–	70.6	57.0	
Fran Philip	60.0	57.0	7.5	7.1	0.2	–	–	1.5	67.7	65.6	
Jakob Sigurdsson	60.0	15.0	–	–	–	–	1.5	–	61.5	15.0	Appointed 1-Oct-20
Total	581.5	537.5	42.5	40.4	9.0	–	6.0	1.5	639.0	579.4	

1 The figure under benefits for Non-Executive Directors relates to business expense reimbursements 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 Chair) who travel long haul to attend Board meetings. The travel fee is capped at a maximum of £7,500 per annum.

3 Base fees in 2020 were reduced by 20% for the period April to June inclusive in response to the COVID19 pandemic.

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

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). Fran Philip receives £7,500 per annum for undertaking additional responsibilities concerning employee engagement. Mike Clasper resigned from the Board on 19 May 2021 and was succeeded by David Gosnell who was already a Non-Executive Director and Chair of the Remuneration Committee. Echo Lu was appointed Chair of the Remuneration Committee in May 2021.

Payments for loss of office (audited information)

There have been no payments for loss of office during the year.

Payments to former Directors (audited information)

No payments were paid to former Directors in the year.

Directors service agreements and appointment letters

All Executive Directors have service agreements which provide for a notice period from either side of twelve months and all of this notice is unexpired. No appointment letters for Non-Executive Directors, including the Chair, 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.

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 2021, are set out below.

	Shareholding requirement in 2021			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-21 ¹	31-Dec-21 ²	01-Jan-21 ¹	31-Dec-21 ²	01-Jan-21 ¹	31-Dec-21 ²	01-Jan-21 ¹	31-Dec-21 ²
Executive Director											
Simon Boddie	1,450,000	200%	Yes	300,000	1,828,642	472,925	342,541	2,634,381	889,749	2,573,091	–
Jackie Callaway	1,150,000	200%	No	75,078	151,606	–	–	–	942,148	–	–
Rajiv Sharma	1,900,000	200%	Yes	4,439,012	4,439,012	696,226	511,684	3,696,402	4,422,071	–	184,542
Chair and Non-Executive Directors											
Mike Clasper			N/A	1,690,000	1,690,000	–	–	–	–	–	–
Nicholas Bull			N/A	500,000	500,000	–	–	–	–	–	–
Anne Fahy			N/A	40,000	40,000	–	–	–	–	–	–
David Gosnell			N/A	1,099,990	1,409,990	–	–	–	–	–	–
Echo Lu			N/A	15,000	15,000	–	–	–	–	–	–
Fran Philip			N/A	25,000	50,000	–	–	–	–	–	–
Jakob Sigurdsson			N/A	–	30,000	–	–	–	–	–	–

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 2021 which was 65.8p.

The opening balance of shares beneficially owned by Rajiv Sharma reflects the correction of a typographical error in last year's report where his beneficially owned shares at 31 December 2020 were incorrectly shown as 4,039,012 instead of the correct figure of 4,439,012. 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. Simon Boddie is required to maintain his minimum shareholding for a two-year period following his retirement.

Directors' remuneration report continued

Details of scheme interests as at 31 December 2021 (audited information)

Rajiv Sharma

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
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				511,684		
LTIP share options (subject to performance conditions)						
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
LTIP21	5-Mar-24	5-Mar-26	5-Mar-31	1,770,247	Unvested	Yes
Sub-total				4,422,071		
Share options (no performance conditions)						
DABP18	4-Mar-21	N/A	4-Mar-28	184,542	Vested	No

Jackie Callaway

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
LTIP share options (subject to performance conditions)						
LTIP21	5-Mar-24	5-Mar-26	5-Mar-31	942,148	Unvested	Yes

Simon Boddie

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP19	4-Mar-22	N/A	4-Sep-22	114,231	Unvested	No
DABP20	6-Mar-23	N/A	6-Sep-23	228,310	Unvested	No
Sub-total				342,541		
LTIP share options (subject to performance conditions)						
LTIP19	4-Mar-22	4-Mar-24	4-Sep-22	519,631	Unvested	Yes
LTIP20	6-Mar-23	6-Mar-25	6-Sep-23	370,118	Unvested	Yes
Sub-total				889,749		

Share options (exercised during the year)

Award	Vesting date	Retention period	Expiry date	No.	Dividend equivalents	Exercise date	Share price on exercise
LTIP16	29-Jul-19	29-Jul-21	1-Dec-21	1,451,723	85,128	1-Dec-21	£0.6189
LTIP17	5-Mar-20	27-Feb-22	1-Dec-21	1,049,862	86,492	1-Dec-21	£0.6189
DABP17	5-Mar-20	N/A	1-Dec-21	71,506	4,307	1-Dec-21	£0.6189
DABP18	4-Mar-21	N/A	1-Dec-21	130,384	4,829	1-Dec-21	£0.6189
Sub-total				2,703,475	180,756		

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. Simon Boddie sold 47% of shares acquired on exercise from all awards and retained the balance. The maximum number of Long Term Incentive awards still subject to performance conditions were reduced pro-rata to reflect the proportion of the three year period that he was employed from the grant date to his retirement date. In cases of retirement vested share options normally expire six months after leaving employment or, if later, six months after the vesting date. In accordance with the plan rules, the expiry date can be extended if an individual is restricted in their ability to deal in shares. This extension was applied to the options exercised by Simon Boddie during this financial year.

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.

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 2021 was 69.0 pence and the range during the year was 55.2 pence to 79.9 pence.

Directors' remuneration report continued

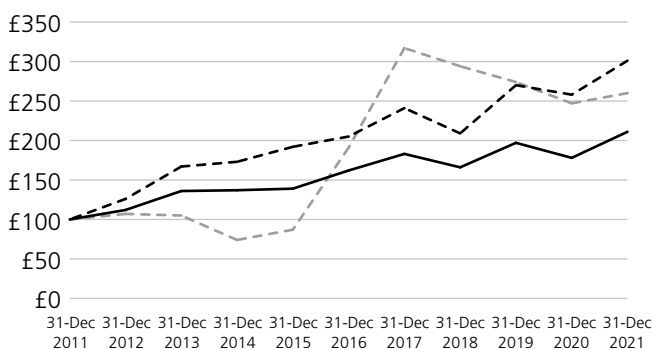
Review of performance

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 2012 to 31 December 2021. 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 2021.

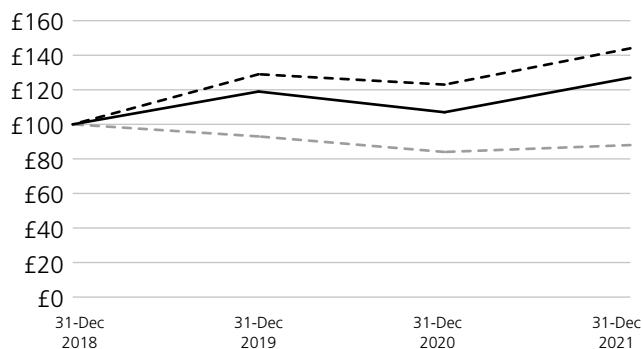
Historical TSR performance

Growth in the value of a hypothetical £100 holding since 1 January 2012 (with all dividends reinvested)



Historical TSR performance

Growth in the value of a hypothetical £100 holding since 1 January 2019 (with all dividends reinvested)



--- FTSE250 Index — FTSE All-Share Index --- Coats

Chief Executive total remuneration for the last 10 years¹

Executive Director	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO single figure of remuneration (£k)	–	–	–	1,017.0	1,760.3	2,566.9	3,356.7	2,228.1	787.4	1,758.5
Annual bonus as a % of maximum opportunity	–	–	–	87.1%	77.0%	79.5%	66.7%	67.3%	5.0%	97%
LTIP award as a % of maximum opportunity	–	–	–	–	43.6%	60.0%	84.2%	95.8%	0%	0%

1. The Company did not have an Executive Director who performed the role of CEO until 2 March 2015, when the Company completed its transition from Guinness Peat Group plc to Coats Group plc.

2. 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.

Director's remuneration – annual percentage change from 2020 to 2021

The table below shows the percentage change in the annual remuneration of Directors and the average UK colleague from 2019 onwards.

	Salary or fees (% change)		Benefits ² (% change)		Bonus (% change)	
	2020 to 2021	2019 to 2020	2020 to 2021	2019 to 2020	2020 to 2021	2019 to 2020
Rajiv Sharma	6.9%	-3.6%	25.8%	-46.8%	1,898.8%	-91.1%
Simon Boddie (retired 31 March 2021) ⁴	5.3%	-3.6%	-1.7%	-2.7%	1,433.9%	-90.3%
Jackie Callaway	1.4%	N/A	-0.6%	N/A	100%	N/A
Mike Clasper ⁴	5.3%	-5%	0%	0%	N/A	N/A
Nicholas Bull	4.4%	-5%	0%	0%	N/A	N/A
Anne Fahy	7.4%	-5%	0%	0%	N/A	N/A
David Gosnell	163.4%	-5%	0%	0%	N/A	N/A
Echo Lu	22.5%	-5%	0%	0%	N/A	N/A
Fran Philip	2.9%	-5%	0%	0%	N/A	N/A
Jakob Sigurdsson	-6.8%	-5%	0%	0%	N/A	N/A
Average of all employees ¹	3.1%	0%	0%	0%	322.8%	-51.4%

1. 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. .

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

3. 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.

4. To enable comparisons, leaver and joiners figures have been annualised. The figures for David Gosnell and Echo Lu reflect their increased fees following their appointments as Group and Remuneration Committee Chairs respectively.

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 2021	Year to 31 December 2020	% change
Employee costs (US\$m)	356.1	272.1	31%
Distributions to shareholders ¹ (US\$m)	27.6	-	100%
Average number of employees	18,473	17,082	8%
Revenues from continuing operations (US\$m) – CER basis	1,503.8	1,163.9	29%
Operating profit pre-exceptional (US\$m) – CER basis	193.1	110.7	74%

1. By way of dividends.

Additional information on number of employees, total revenues and profit has been provided for context. The figures for employee costs, average number of employees, revenues and operating profit in 2021 and 2020 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 2020 restated at 2021 exchange rates.

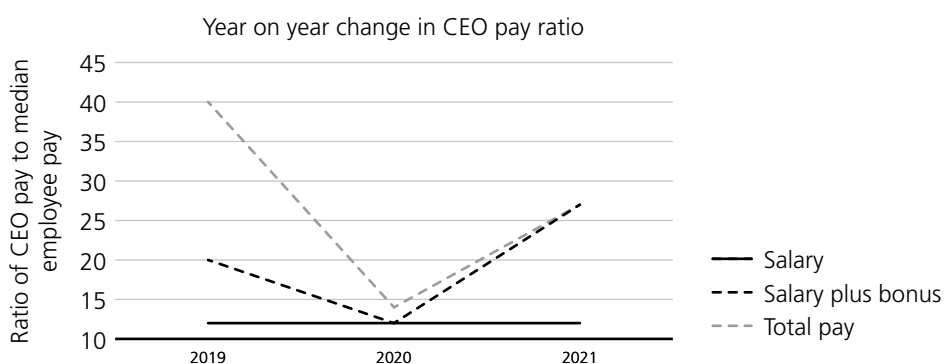
Directors' remuneration report

continued

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.

Financial Year	Calculation methodology	Salary			Salary plus bonus			Total pay		
		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
2021	A	16	12	8	37	27	13	41	27	12



The ratio of salary has remained the same post salary review during 2021. The CEO ratios for Salary plus bonus and Total Pay have widened from 2020 and this reflects that the higher at risk bonus opportunity for the CEO which has paid out in 2021 while there was no award in 2020. The lower quartile, median and upper quartile employees in the table below were identified on the basis of full-time equivalent total remuneration and benefits in the twelve month period ending 31 December 2021 (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 2021. 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 2021 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	Lower quartile	Median	Upper quartile
Base Pay	621,300	38,109	53,372	82,008
Base and Bonus	1,567,100	42,079	58,709	120,962
Total Remuneration	1,786,900	42,784	64,392	151,070

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

The Directors continue to believe that the Remuneration Policy, approved by shareholders in June 2020, continues to reflect the factors set out in Provision 40 of the Corporate Governance Code. Prior to the development of the policy all of Coats' shareholders with shareholdings at or above 1% of Coats' market capitalisation were consulted and the final policy did reflect amendments (around UK pension policy and post-employment shareholding requirements) directly as a consequence of the consultation process. These amendments have had an impact on the policy implemented in 2021 as described below. It is the Company's policy to consult with shareholders on any change in the Remuneration Policy implementation even if such a change is within the framework of the existing policy. No consultation was required on any Director Remuneration Policy related issues in 2021 because the policy was implemented as intended. However, the Company did engage with a major shareholder on the development and implementation of a global Living Wage policy and the underpinning methodology that applies to the rest of the workforce.

During 2021, as noted earlier in this report, Simon Boddie retired from the Board and a post termination minimum shareholding requirement (MSR) was applied to him that had been developed during the consultation process and that was not originally part of his terms and conditions of employment. This policy was based on a requirement to retain at least the level of his MSR for a period of two years following cessation of employment.

The Company also implemented the requirement contained in Provision 38 to align the pension benefit provision of the Executive Directors with those of the UK workforce within a definitive timeframe. The pension benefit for Jackie Callaway was implemented at 12% of salary upon her appointment in 2020 and for Rajiv Sharma his pension benefit will reduce to 12% by 31 December 2022. The 12% benefit level was the average for the UK workforce when the policy was approved in June 2020. In relation to this requirement the Committee went further in 2021 and approved a simplification of the current UK pension benefit policy, which consists of a number of different benefit levels, to ensure that all employees were treated consistently. The simplification process is to align, in two stages, all of the UK workforce (less than 200 employees) to a common minimum core pension benefit value of 12% by July 2023 (with an interim minimum step of 10% in July 2022) and will result in an increase for a majority of UK employees. Employees based in the UK, other than Executive Directors, who have contractual entitlements in excess of this level will values protected at their current levels.

The Directors believe that the principles outlined in Provision 40 of the Corporate Governance Code continue to be met in the operation of the Remuneration Policy in 2021. Remuneration arrangements are clearly communicated and straightforward. Incentives are linked to the key performance metrics of sales, profit and cash generation. These measures are aligned throughout the groups incentive schemes and there is a balance between overall group performance across all three metrics and each individual local business unit. Personal performance is also an element, both in incentives and in salary reviews, but there is an overall link to the achievement of company performance to ensure that the risk of excessive rewards in cases of poor performance is managed. Teamwork is a key strength and cultural aspect for Coats and incentives are managed to ensure that there is cooperation and flexibility in delivering performance and to ensure that incentive structures do not negatively impact the culture of the organisation.

Although the Company does not formally consult with employees in determining the Remuneration Policy there are several routes by which employee engagement is achieved. Fran Philip is the designated Director with responsibility for employee engagement and is also a member of the Remuneration Committee. During 2021 a programme of meetings was conducted by Fran with business unit leadership teams to discuss a variety of issues of interest to employees. All employees were encouraged to raise any areas of concern, including concerning remuneration, directly or through line managers. Further details of the Board's engagement with the workforce is set out on page 29. In addition, during 2021 the Board conducted a series of in depth review meetings in each major market and as part of this review considered for all employees the competitiveness of the remuneration offering, the level of any minimum Living Wage and whether any employees were below this level, the gender profile and pay differentials of the workforce and the level of pension or other benefit programmes. During the review meetings business leadership teams were encouraged to provide as much feedback from their teams as possible.

Directors' remuneration report continued

Statement of implementation of Remuneration Policy for 2022

Base salaries for Executive Directors and fees for the Non-Executive Directors will be reviewed on 1 July 2022.

Rajiv Sharma will continue to receive a base salary of £630,500 per annum; a fixed pension benefit of £122,400 until 31 December 2022 and then reduced to 12% thereafter; a car allowance of £20,000 per annum; medical, life and income replacement insurance.

Jackie Callaway will continue to receive a base salary of £391,500 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.

In accordance with the Remuneration Policy approved by shareholders on 11 June 2020 the LTIP award for the Chief Executive Officer will be 175% and the maximum annual bonus opportunity will remain 150%. The maximum bonus opportunity for the Chief Financial Officer will be 115% and the LTIP award will be 150%. The compulsory three-year deferral into shares of the 2022 bonus outcome will be 50% for the Chief Executive Officer and 40% for the Chief Financial Officer. A post-termination minimum shareholding requirement applies to all Executive Directors for two years following termination of employment based on the lower of 100% of the MSR or the actual shareholding at termination.

The performance measures and weightings for annual and long term incentives are shown below. The Committee have decided to increase the weighting of LTIP awards linked to Sustainability objectives from 10% to 20% to reflect the increased importance and commercial opportunities that arise from this key measure.

Annual bonus		Long Term Incentive	
Measure	Weighting	Measure	Weighting
Sales	30%	Earnings Per Share	40%
Earnings Before Interest and Taxation	30%	Free Cash Flow	20%
Free Cash Flow	20%	Total Shareholder Return	20%
Individual objectives	20%	Sustainability	20%

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 2022 will be subject to the following targets:

Measure	Threshold	Mid	Maximum
EPS CAGR (adjusted as described below)	5%	12.5%	20%
Vesting % for EPS measure	25%	62.5%	100%
Cumulative Free Cash Flow (US\$m) over three years	\$321m	\$359m	\$396m
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 to emphasise the importance of delivering the Company's objectives and priorities in this area. Specifically these targets for the LTIP award in 2022 will be based on three measurable goals that are aligned to our already published 2030 Company's Science Based Targets. These measures are; a reduction in emissions, an increase in Eco Verde sales (to support our conversion to no new oil based products) and a reduction in our water usage. Further details of the specific targets for the period 2022 to 2024, including updates of our progress towards our overall sustainability objectives, will be published and updated on our website during 2022 at www.coats.com/sustainability. The LTIP targets will also be provided in next year's annual report on remuneration.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Committee were: David Gosnell (Chair) until 1 May 2021, Echo Lu (succeeded David Gosnell as Chair), Fran Philip and Nicholas Bull (from 1 May 2021).

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 £47,375 for time spent and materials used in providing advice to the Company during the period to 31 December 2021. 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 19 May 2021 the results of the vote regarding Resolution 2 (to approve the Annual Report on Remuneration) were:

Votes for		Votes against		Votes total	Votes withheld
Number	%	Number	%	Number	Number
1,207,472,012	99.98	281,590	0.02	1,207,753,602	3,535,697

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

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

Committee performance and effectiveness

The Committee effectiveness in respect of the year ended 31 December 2021 was evaluated using an internal questionnaire in line with the process set out on page 81. The Committee considered the key points that were identified in the previous year's assessment. The 2021 evaluation indicated that the Committee's ways of working and dynamics were working effectively and noted the successful transition in Chair. Opportunities identified for the 2022 Committee work plan included further focus on monitoring and evaluating new and emerging trends.

Signed on behalf of the Remuneration Committee by:

Echo Lu

Chair, Remuneration Committee
2 March 2022

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- 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 statement of accounting policies;
- the related Notes 1 to 35;
- 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 United Kingdom adopted international accounting standards. 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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: <ul style="list-style-type: none"> • Lower Passaic River Study Area litigation provision; • material assumptions underlying retirement benefit obligations; and • uncertain tax positions.
Materiality	The materiality that we used for the group financial statements was \$9.2 million, which was determined based on 0.6% of revenue. 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 and specified audit procedures performed covered over 85% of the group's net assets, 81% of the group's underlying profit before tax within the group's trading components and 78% of the group's revenue.
Significant changes in our approach	We have not identified any new key audit matters in the current year. Due to the impact of the Covid pandemic, we identified impairment of fixed assets as a key audit matter in the prior year. As a result of the reduction in uncertainty from the prior year, the level of audit effort required in our response to this risk has reduced and therefore we no longer identify the impairment of fixed assets as a key audit matter.

4 Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's 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 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;
- Testing the mechanical and logical accuracy of management's calculations in their forecasts;
- 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's 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 manufacturers and chemical producers, the group is subject to ongoing proceedings by the US Environmental Protection Agency (EPA) regarding environmental damage caused by historical operations 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 \$11.2 million (2020: \$12.6 million), net of insurance proceeds, at 31 December 2021. 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 86.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant controls regarding the recognition of the provision and evaluated whether these had been implemented as designed.

We evaluated management's assumptions, including assessing the 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 assessed 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, capabilities and objectivity of management's external legal advisers. We considered the legal advice management had obtained in relation to litigation and challenged management's judgements through inspecting the relevant third-party legal confirmation and through discussion with the key external legal adviser and our environmental specialist.

Key observations

There were no material developments during 2021 that would result in a re-measurement of the underlying remediation provision. Management has properly considered the latest information available from its third-party legal advisers.

5.2 Material assumptions underlying retirement benefit obligations

Key audit matter description	<p>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 2021 was \$3,197 million (2020: \$3,589 million).</p> <p>The assumptions used in the valuation are relatively sensitive to small changes and can result in a material difference in the net surplus recognised of \$21.1 million (2020: \$225.8 million net deficit). The Coats UK Pension Scheme is the most significant scheme, the gross liabilities of which amount to \$3,034.9 million (2020: \$3,338.7 million). The key assumptions involved in the determination of the present values of the UK defined benefit obligation include discount rates, mortality and inflation rates.</p> <p>Management has taken the judgement that an unconditional right to recover the UK scheme surplus exists and have therefore recognised a surplus in respect of the UK scheme.</p> <p>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 86.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the UK pension assumptions and evaluated whether this had been implemented as designed.</p> <p>We worked with our pension specialists to challenge the assumptions underlying management's calculation of the UK defined benefit scheme. We have compared the key assumptions to industry benchmarks and prior year methodologies.</p> <p>We evaluated the competence, capability and objectivity of the experts that management engaged to determine the underlying assumptions of the defined benefit pension obligations, by checking they are qualified and affiliated with the appropriate industry body. We evaluated the underlying assumptions of the pension scheme liabilities both individually and in aggregate against our independently determined range of key assumptions and the key assumptions determined by management.</p> <p>We assessed management's judgement that an unconditional right to recover the UK scheme surplus exists by comparison to the underlying scheme rules and the view of management's external specialist.</p>
Key observations	<p>The key assumptions used in the calculation of the retirement benefit obligations were within our reasonable ranges. We concur with management's judgement that it is appropriate to recognise a surplus in respect of the UK scheme.</p>

Independent auditor's report to the members of Coats Group plc continued

5.3 Uncertain tax positions

Key audit matter description

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 2021 amount to \$20.2 million (2020: \$15.0 million).

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.

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 the known exposure. The valuation of central provisions relating to ongoing Advanced Pricing Agreement negotiations between the UK and Indian and Indonesian jurisdiction tax authorities is the most significant uncertain tax exposure in the group.

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 86.

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 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 worked with our transfer pricing specialist to challenge management and their external advisers on the basis for the provision recognised in respect of the ongoing India and Indonesian Advanced Pricing Agreement.

Key observations

We are satisfied that the provisions raised in respect of the potential taxation exposures are appropriate.

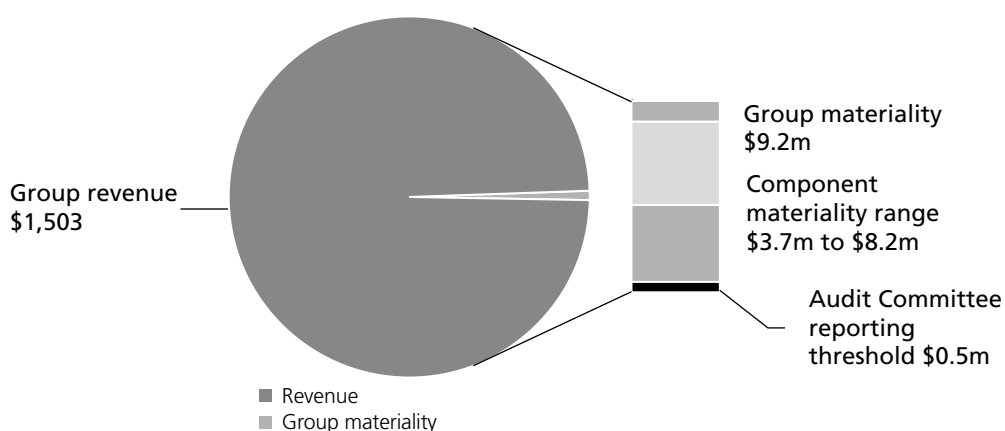
6 Our application of materiality

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	\$9.2 million (2020: \$6.5 million)	£8.2million (2020: \$5.8 million)
Basis for determining materiality	Consistent with prior year, we have determined materiality on the basis of 0.6% of group revenue.	Consistent with prior year, Parent company materiality is determined on the basis of net assets and capped at 90% of group materiality.
Rationale for the benchmark applied	We consider revenue to be the most appropriate measure to reflect the focus of users of the financial statements and the volume of transactions in the year.	The parent company is primarily an investment holding company and net assets is considered the most appropriate benchmark.



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	70% (2020: 65%) of group materiality	70% (2020: 65%) 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. In response to the impact of the COVID-19 pandemic in the prior period, we lowered the percentage of materiality used to determine performance materiality in the prior period from 70% to 65%. As a result of the reduction in uncertainty and no material deterioration of the control environment noted, we have raised performance materiality back to 70%.	

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 \$0.5 million (2020: \$0.3 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.

Independent auditor's report to the members of Coats Group plc continued

7 An overview of the scope of our audit

7.1 Identification and scoping of components

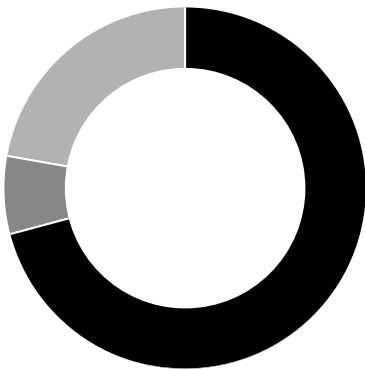
Coats Group plc was subject to a full statutory audit by the group auditor. Due to the geographically widespread nature of the group, the audit is subject to scoping decisions on overseas components. We focused our group audit scope on 11 (2020: 11) overseas components spread across four continents, which were subject to full audits.

Additionally, seven 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.

The 11 overseas components and UK components subject to full audit scope account for 69% of the group's net assets (2020: 67%), 80% of the group's underlying profit before tax within the group's trading components (2020: 79%) and 71% of the group's revenue (2020: 71%). If including the specified audit procedures performed, we have obtained coverage over 85% of the group's net assets of (2020: 82%), 81% of the group's underlying profit before tax within the group's trading components (2020: 80%), and 78% of the group's revenue (2020: 82%).

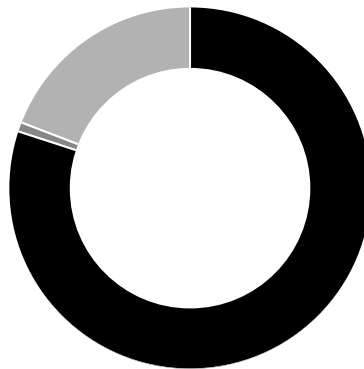
At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account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

Revenue



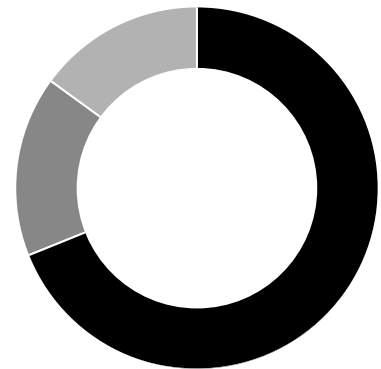
- 71% Full audit scope
- 7% Specified audit procedures
- 22% Review at group level

Profit before tax



- 80% Full audit scope
- 1% Specified audit procedures
- 19% Review at group level

Net assets



- 69% Full audit scope
- 16% Specified audit procedures
- 15% Review at group level

7.2 Our consideration of the control environment

Coats Group 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 India component audit team relies upon controls across various operating cycles, the general IT controls and relevant entity level controls, 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 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of climate change which is currently premised upon three scenarios; a low carbon scenario, a medium carbon scenario and a high carbon scenario, as explained in the Strategic Report on page 38. Management has identified specific transitional and physical climate related risks.

As a part of our audit, we have obtained management's climate-related risk assessment and held discussions with the head of sustainability and finance management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. As explained in note 1 on page 140, the key areas in the consolidated financial statements considered were the impact on estimated useful lives of tangible assets and forecasts used in the impairment reviews of CGUs. Management concluded there was no material impact arising from climate change on the judgements and estimates made in the financial statements as explained in note 1 on page 141.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any reasonably possible risks of material misstatement. Our procedures were performed with the involvement of climate change and sustainability specialists and included reading Task Force on Climate-Related Financial Disclosures reporting and considering whether it is materially consistent with the financial statements and our knowledge obtained in the audit.

7.4 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.

Our involvement in the audit of the other full scope components is as follows:

- Given the global travel restrictions, 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 four 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.

8 Other information

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 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.

Independent auditor's report to the members of Coats Group plc continued

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 based on 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 relevant internal specialists, including tax, valuations, pensions, IT, climate change 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 global 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. These included the group's environmental regulations that affect the Group's operations.

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 tested the accuracy and completeness of the year end rebate accrual by comparison to contractual requirements of principal end customers and by performing a retrospective assessment of the accuracy of the 2020 rebate accrual;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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 94;
- 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 59;
- the directors' statement on fair, balanced and understandable set out on page 85;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 46;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 87; and
- the section describing the work of the audit committee set out on page 83.

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 19 years, covering the years ending 31 December 2003 to 31 December 2021.

15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit 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. As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Edward Hanson (senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 March 2022

Consolidated income statement

Year ended 31 December	Notes	2021			2020		
		Before exceptional and acquisition related items US\$m	Exceptional and acquisition related items (see note 4) US\$m	Total US\$m	Before exceptional and acquisition related items US\$m	Exceptional and acquisition related items (see note 4) US\$m	Total US\$m
Continuing operations:							
Revenue	2,3	1,503.8	–	1,503.8	1,163.3	–	1,163.3
Cost of sales		(1,025.3)	5.8	(1,019.5)	(806.6)	(4.9)	(811.5)
Gross profit		478.5	5.8	484.3	356.7	(4.9)	351.8
Distribution costs		(135.3)	–	(135.3)	(116.1)	–	(116.1)
Administrative expenses		(150.1)	(19.5)	(169.6)	(130.0)	(4.0)	(134.0)
Other operating income		–	–	–	–	1.4	1.4
Operating profit	2,4,5	193.1	(13.7)	179.4	110.6	(7.5)	103.1
Share of profits of joint ventures	16	1.2	–	1.2	0.6	–	0.6
Finance income	6	0.4	4.2	4.6	0.7	0.7	1.4
Finance costs	7	(22.2)	–	(22.2)	(25.5)	–	(25.5)
Profit before taxation	5	172.5	(9.5)	163.0	86.4	(6.8)	79.6
Taxation	9	(53.5)	(0.9)	(54.4)	(35.2)	(2.2)	(37.4)
Profit for the year		119.0	(10.4)	108.6	51.2	(9.0)	42.2
Attributable to:							
Equity shareholders of the company		99.3	(10.4)	88.9	35.4	(9.0)	26.4
Non-controlling interests		19.7	–	19.7	15.8	–	15.8
		119.0	(10.4)	108.6	51.2	(9.0)	42.2
Earnings per share (cents):							
	11						
Basic				6.10			1.81
Diluted				6.07			1.81
Adjusted earnings per share	35(d)	6.81			2.42		

Notes on pages 130 to 192 form part of these financial statements.

Consolidated statement of comprehensive income

Year ended 31 December	2021 US\$m	2020 US\$m
Profit for the year	108.6	42.2
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on retirement benefit schemes	212.8	(39.7)
Tax relating to items that will not be reclassified	(1.0)	0.1
	211.8	(39.6)
Items that may be reclassified subsequently to profit or loss:		
Net changes in fair value of cash flow hedges	–	(2.4)
Exchange differences on translation of foreign operations	(17.0)	(13.3)
	(17.0)	(15.7)
Other comprehensive income and expense for the year	194.8	(55.3)
Net comprehensive income and expense for the year	303.4	(13.1)
Attributable to:		
Equity shareholders of the company	284.2	(28.9)
Non-controlling interests	19.2	15.8
	303.4	(13.1)

Notes on pages 130 to 192 form part of these financial statements.

Consolidated statement of financial position

31 December	Notes	2021 US\$m	2020 US\$m
Non-current assets:			
Intangible assets	13	282.9	288.6
Property, plant and equipment	14	244.5	254.4
Right-of-use assets	15	91.6	60.7
Investments in joint ventures	16	12.0	11.1
Other equity investments	16	6.0	6.0
Deferred tax assets	17	20.7	22.7
Pension surpluses	10	159.7	11.4
Trade and other receivables	19	28.7	19.0
		846.1	673.9
Current assets:			
Inventories	18	250.1	187.0
Trade and other receivables	19	302.7	274.5
Other equity investments	16	–	0.1
Pension surpluses	10	5.2	4.8
Cash and cash equivalents	30(f)	107.2	71.9
		665.2	538.3
Total assets		1,511.3	1,212.2
Current liabilities:			
Trade and other payables	21	(346.8)	(255.7)
Current income tax liabilities		(16.5)	(13.9)
Bank overdrafts and other borrowings	23	(19.2)	(22.8)
Lease liabilities	15	(17.8)	(16.4)
Retirement benefit obligations:			
– Funded schemes	10	(41.9)	(35.3)
– Unfunded schemes	10	(6.1)	(7.1)
Provisions	25	(8.1)	(8.2)
		(456.4)	(359.4)
Net current assets		208.8	178.9

31 December	Notes	2021 US\$m	2020 US\$m
Non-current liabilities:			
Trade and other payables	21	(24.2)	(18.1)
Deferred tax liabilities	24	(6.8)	(9.0)
Borrowings	23	(235.1)	(229.7)
Lease liabilities	15	(81.2)	(49.6)
Retirement benefit obligations:			
– Funded schemes	10	(5.6)	(100.1)
– Unfunded schemes	10	(90.2)	(99.5)
Provisions	25	(27.7)	(27.9)
		(470.8)	(533.9)
Total liabilities		(927.2)	(893.3)
Net assets		584.1	318.9
Equity:			
Share capital	26	90.1	90.1
Share premium account	27	10.5	10.5
Own shares	26, 27	(0.5)	(3.2)
Translation reserve	27	(105.7)	(89.2)
Capital reduction reserve	27	59.8	59.8
Other reserves	27	246.3	246.3
Retained profit/(loss)	27	252.5	(23.8)
Equity shareholders' funds		553.0	290.5
Non-controlling interests	27	31.1	28.4
Total equity		584.1	318.9

Rajiv Sharma
Group Chief Executive

Jackie Callaway
Chief Financial Officer

Approved by the Board 2 March 2022

Company Registration No.103548

Notes on pages 130 to 192 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 profit/(loss) US\$m	Total US\$m	Non-controlling interests US\$m	Total equity US\$m
Balance as at 1 January 2020	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
Profit for the year	–	–	–	–	–	–	88.9	88.9	19.7	108.6
Other comprehensive income and expense for the year	–	–	–	(16.5)	–	–	211.8	195.3	(0.5)	194.8
Dividends (see notes 12 and 27)	–	–	–	–	–	–	(27.6)	(27.6)	(16.5)	(44.1)
Movement in own shares	–	–	2.7	–	–	–	(0.8)	1.9	–	1.9
Share based payments	–	–	–	–	–	–	3.9	3.9	–	3.9
Deferred tax on share schemes	–	–	–	–	–	–	0.1	0.1	–	0.1
Balance as at 31 December 2021	90.1	10.5	(0.5)	(105.7)	59.8	246.3	252.5	553.0	31.1	584.1

Notes on pages 130 to 192 form part of these financial statements.

Consolidated statement of cash flows

Year ended 31 December	Notes	2021 US\$m	2020 US\$m
Cash inflow from operating activities:			
Cash generated from operations	30(a)	189.0	128.0
Interest paid		(12.5)	(16.1)
Taxation paid	30(b)	(47.9)	(46.3)
Net cash generated by operating activities		128.6	65.6
Cash outflow from investing activities:			
Investment income	30(c)	0.3	0.9
Net capital expenditure and financial investment	30(d)	(30.3)	(12.3)
Acquisitions and disposals of businesses	30(e)	–	(36.9)
Net cash absorbed in investing activities		(30.0)	(48.3)
Cash outflow from financing activities:			
Purchase of own shares		–	(3.1)
Dividends paid to equity shareholders		(27.4)	(0.2)
Dividends paid to non-controlling interests		(16.5)	(17.8)
Payment of lease liabilities		(22.1)	(19.4)
Net increase/(decrease) in borrowings		8.4	(58.7)
Net cash absorbed in financing activities		(57.6)	(99.2)
Net increase/(decrease) in cash and cash equivalents		41.0	(81.9)
Net cash and cash equivalents at beginning of the year		52.1	135.9
Foreign exchange losses on cash and cash equivalents		(2.3)	(1.9)
Net cash and cash equivalents at end of the year	30(f)	90.8	52.1
Reconciliation of net cash flows to movements in net debt			
Net increase/(decrease) in cash and cash equivalents		41.0	(81.9)
Net (increase)/decrease in other borrowings		(8.4)	58.7
Change in net debt resulting from cash flows (free cash flow)		32.6	(23.2)
Net movement in lease liabilities during the period		(33.0)	(0.3)
Movement in fair value hedges		3.0	(5.4)
Other non-cash movements		(1.3)	(0.7)
Foreign exchange losses		(0.8)	(2.1)
Decrease/(increase) in net debt		0.5	(31.7)
Net debt at the start of the year		(246.6)	(214.9)
Net debt at the end of the year	30(f)	(246.1)	(246.6)

Notes on pages 130 to 192 form part of these financial statements.

Notes to the financial statements

1 Principal accounting policies

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

Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, the below critical judgements have had a significant effect on the amounts recognised in the financial statements for the year ended 31 December 2021. For the year ended 31 December 2020 there were no judgements that were made in the process of applying the Group's accounting policies, other than those involving estimations that had a significant effect on the amounts recognised in the financial statements.

Exceptional and acquisition related items

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

UK pension surplus recognition

The Group has recognised a net defined benefit pension surplus for the Coats UK Pension Scheme under IAS 19 of \$108.0 million at 31 December 2021 (2020: deficit of \$128.5 million). Judgement has been applied when determining whether the Group can recognise this surplus asset amount on the statement of financial position or whether any economic benefits available as a refund are contingent upon factors beyond the Group's control and instead require an adjustment to be made to restrict the amount of the surplus recognised and reflect a liability arising from future committed contributions to the Coats UK Pension Scheme under IFRIC 14. The Group has determined that it has an unconditional right to a refund of the surplus assuming the gradual settlement of liabilities over time and therefore has recognised the full amount of the net defined benefit pension surplus. Please see note 10 for further details.

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 surplus recognised in the consolidated statement of financial position is the net of the fair value of scheme assets less the present values of the defined benefit obligations at the year end. 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 surplus 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 2021, the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2020.

a) Accounting convention and format

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom Endorsement Board (UKEB). The financial statements are prepared under the historical cost convention except for investments and derivatives which are stated at fair value 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, interpretations and amendments (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 2020.

1 Principal accounting policies continued

b) Basis of preparation

Subsidiaries

Subsidiaries are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. The effective date is when control passes to or from the Group. Control is achieved when the Group has the power over the investee and is exposed, or has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control. Where necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by the Group.

Where subsidiaries are not 100% owned by the Group, the share attributable to outside shareholders is reflected in non-controlling interests. Non-controlling interests are identified separately from the Group's equity, and may initially be measured at either fair value or at the non-controlling interests' share of the fair value of the subsidiary's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Changes in the Group's interests in subsidiaries, that do not result in a loss of control, are accounted for as equity transactions. Where control is lost, a gain or loss on disposal is recognised through the consolidated income statement, calculated as the difference between the fair value of consideration received (plus the fair value of any retained interest) and the Group's previous share of the former subsidiary's net assets. Amounts previously recognised in other comprehensive income in relation to that subsidiary are reclassified and recognised through the income statement as part of the gain or loss on disposal.

Joint ventures

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

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 2022 as well as the Group's Medium Term Plan for 2023;
- A severe but plausible downside scenario, which 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

As at 31 December 2021 the Group's net debt (excluding IFRS 16 leases) was \$147.1 million (2020: \$180.6 million). The Group's committed debt facilities total \$585 million across both its Banking and US Private Placement group, with a range of maturities from late 2024 through to 2027, as of 31 December 2021 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 2021, with leverage of 0.7x and interest cover of 28.4x. The base case forecast indicates that banking covenants will be comfortably met throughout the assessment period. Under the severe but plausible downside scenario covenant compliance is still projected to be achieved throughout the assessment period, 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, 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 2021.

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:

		2021	2020
Average	Sterling	0.73	0.78
	Euro	0.85	0.88
	Brazilian Real	5.40	5.16
	Chinese Renminbi	6.45	6.90
	Indian Rupee	73.92	74.11
	Turkish Lira	8.89	7.02
Period end	Sterling	0.74	0.73
	Euro	0.88	0.82
	Brazilian Real	5.57	5.19
	Chinese Renminbi	6.35	6.53
	Indian Rupee	74.47	73.04
	Turkish Lira	13.32	7.43

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 financing 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, non-actuarial gains or losses arising from significant one off changes to 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 Coats Brands) 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.

1 Principal accounting policies continued

(iv) Derivative financial instruments and hedge accounting

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

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

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

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

1) 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.

Notes to the financial statements continued

1 Principal accounting policies continued

(iii) Income from sales of property

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

m) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials are valued at cost on a first-in, first-out basis.

The costs of finished goods and work in progress include direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving and defective inventories.

n) Employee benefits

(i) Retirement and other post-employment obligations

For retirement and other post-employment benefit obligations, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period by independent actuaries.

Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to the consolidated statement of comprehensive income in the period in which they occur. Remeasurement recorded in the consolidated statement of comprehensive income is not recycled.

Current and past service costs, along with the impact of any settlements or curtailments, are charged to the consolidated income statement. The net interest expense on pension plans' liabilities and the expected return on the plans' assets is recognised within finance expense in the consolidated income statement.

In addition, pension scheme administrative expenses including the Pension Protection Fund (PPF) levy and actuary, audit, legal and trustee charges are recognised as administrative expenses.

The retirement benefit and other post employment benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes and refunds expected from the schemes to fund other Group defined benefit schemes, in accordance with relevant legislation.

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.

1 Principal accounting policies continued

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. The fair value is charged to the consolidated income statement on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non-market-based performance conditions and forfeitures. The corresponding credit is to equity shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust over the vesting period.

(iii) Non-share-based long-term incentive schemes

The anticipated present value cost of non-share-based incentive schemes is charged to the consolidated income statement on a straight-line basis over the period the benefit is earned, based on remuneration rates that are expected to be payable.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the period end are discounted to present value.

o) Taxation

The tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the period end.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying values of deferred tax assets are reviewed at each period end.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

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.

Notes to the financial statements continued

1 Principal accounting policies continued

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.

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.

v) 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 Taskforce on Climate-related Financial Disclosures (TCFD) section of the Strategic Report on pages 38-45 we are exposed to specific transitional and physical climate related risks. The key areas in the consolidated financial statements that were identified for consideration of potential impacts from these climate related risks were the assumptions used to support impairment reviews of cash generating units (CGUs) and accounting policies on estimated useful lives of tangible fixed assets.

(i) Impairment of assets

The key climate related risks considered were the introduction of carbon taxes, disruption of water supply and extreme weather events (floods and extreme heat). These risks as well as any potential mitigations were considered when assessing the appropriateness of the assumptions used to project future cash flows to support the value in use of a CGU. No specific significant financial impacts were identified in relation to the CGUs that were subject to an impairment review during the year ended 31 December 2021 (see note 13). In addition, no significant short to medium term (pre 2045) climate related impacts have been identified for individual assets or other CGUs in the Group.

(ii) Fixed asset useful lives

Consideration was given as to whether the impact of physical risks relating to extreme weather events (eg flood risk damage) may require a reassessment of the estimated useful lives of fixed assets. As noted in the physical risks section in our TCFD disclosures, no significant impacts are currently expected in the short to medium term (pre 2045), after which point the majority of the Group's current fixed asset portfolio will be fully depreciated. As such, the reassessment of fixed asset useful lives to reflect potential impacts of climate change was not deemed necessary.

1 Principal accounting policies continued

In light of the above, the Group's current assessment is that the climate related risks detailed in the TCFD disclosures section of the Strategic Report do 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:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).

The adoption of these standards has not had a material impact on 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 UKEB, are expected to be effective as follows:

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).

From the year beginning 1 January 2023:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

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

	Apparel & Footwear US\$m	Performance Materials US\$m	Total US\$m
Year ended 31 December 2021			
Revenue	1,094.4	409.4	1,503.8
Segment profit	163.9	29.2	193.1
Exceptional and acquisition related items (note 4)			(13.7)
Operating profit			179.4
Share of profits of joint ventures			1.2
Finance income			4.6
Finance costs			(22.2)
Profit before taxation from continuing operations			163.0

Notes to the financial statements continued

2 Segmental analysis continued

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

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.

b) Geographic information

Year ended 31 December	Revenue by origin		Revenue by destination		Non-current assets	
	2021 US\$m	2020 US\$m	2021 US\$m	2020 US\$m	2021 US\$m	2020 US\$m
Europe, Middle East & Africa (EMEA)						
UK	14.4	8.0	14.8	12.3	258.9	260.3
Rest of EMEA	267.8	211.4	250.9	198.1	70.3	68.6
Americas						
USA	205.4	187.9	218.4	195.8	63.3	61.1
Rest of Americas	170.0	126.6	173.3	126.5	46.6	35.4
Asia & Rest of World						
India	166.3	110.1	161.8	107.1	46.1	50.3
China and Hong Kong	214.4	147.2	194.1	135.3	77.1	55.7
Vietnam	192.0	176.4	178.7	159.2	34.9	34.5
Other	273.5	195.7	311.8	229.0	67.2	68.4
	1,503.8	1,163.3	1,503.8	1,163.3	664.4	634.3

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	2021 US\$m	2020 US\$m
Goods transferred at a point in time	1,492.7	1,154.8
Software solutions services transferred over time	11.1	8.5
	1,503.8	1,163.3
Other operating income	–	1.4
Finance income	4.6	1.4
	1,508.4	1,166.1

The software solutions business is included in the Apparel & Footwear segment.

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	2021 US\$m	2020 US\$m
Continuing operations:		
Asia	846.2	629.4
Americas	375.4	314.5
EMEA	282.2	219.4
	1,503.8	1,163.3
Continuing operations:		
Apparel & Footwear	1,094.4	822.7
Performance Materials	409.4	340.6
	1,503.8	1,163.3

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 (also referred to as underlying performance) exclude exceptional and acquisition related items on a consistent basis with the previous reporting period to provide a more meaningful comparison of how the performance of the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 35.

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, non-actuarial gains or losses arising from significant one off changes to 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 2021 were \$13.7 million (2020: \$7.5 million) comprising exceptional items for the year ended 31 December 2021 of \$2.1 million credit (2020: charge of \$3.5 million) and acquisition related items for the year ended 31 December 2021 of \$15.8 million (2020: \$4.0 million). Tax in respect of exceptional and acquisition related items is set out in note 9.

Notes to the financial statements continued

4 Exceptional and acquisition related items continued

Exceptional items

Exceptional items (credited)/charged to operating profit during the year ended 31 December 2021 are set out below:

Year ended 31 December	2021 US\$m	2020 US\$m
Exceptional items:		
Cost of sales:		
Brazil indirect taxes	(5.8)	–
Impairment charges	–	4.9
Administrative expenses:		
Strategic project costs	3.7	–
Other operating income:		
Profit from sale of property	–	(1.4)
Total exceptional items (credited)/charged to operating profit from continuing operations	(2.1)	3.5

Brazil indirect taxes – During the year ended 31 December 2021 the Brazilian Supreme Federal Court concluded its judgement that Brazilian ICMS (indirect tax on goods and services) should not be included in the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes.

As a result, estimated refunds have been recognised in the results for the year ended 31 December 2021 of \$5.8 million (year ended 31 December 2020: \$nil) which has been included in cost of sales and in addition exceptional interest income has been recognised of \$4.2 million (year ended 31 December 2020: \$0.7 million).

These refunds date back to 2003 and the estimated tax credit amounts are expected to be utilised over a period of approximately six years, based upon current assumptions, once the Group has received a favourable Court ruling, which is considered virtually certain.

Strategic project costs – The Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. Exceptional costs of \$3.7 million were incurred during the year ended 31 December 2021 which includes advisers' costs of \$0.9 million, impairment charges relating to plant and equipment in North America of \$2.0 million and closure and other related costs of \$1.7 million. This was offset by an exceptional credit of \$0.9 million relating to the closure of a small business in Australia in a prior year. It is anticipated that cash exceptional costs in the order of \$35 million will be incurred in relation to these and further strategic initiatives across 2022 and 2023 in total.

Exceptional items during the year ended 31 December 2020 are set out below:

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 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 in these markets represented 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. None of the cash generating units for which an impairment charge was recognised during the year ended 31 December 2020 included goodwill or intangible assets with indefinite useful lives.

Profit from sale of property – During the year ended 31 December 2020 a profit of \$1.4 million was made from the sale of a property in a non-core market.

4 Exceptional and acquisition related items continued**Acquisition related items**

Acquisition related items are set out below:

Year ended 31 December	2021 US\$m	2020 US\$m
Acquisition related items:		
Administrative expenses:		
Acquisition earnouts and contingent consideration	0.1	0.8
Acquisition transaction costs	12.4	–
Amortisation of acquired intangible assets	3.3	3.2
Total acquisition related items charged to operating profit	15.8	4.0

The Group pursued several acquisition opportunities during the year ended 31 December 2021 and as a result incurred transaction costs of \$12.4 million (2020: \$nil). Growth through acquisitions is a key element of the Group's strategy and the Group will continue to be disciplined in the assessment of acquisition opportunities as they arise. The Group looks to identify companies with complementary capabilities that can further strengthen the core, technology, innovations, or Intellectual Property and which can be scaled to deliver growth and value for customers and shareholders.

The Group has made acquisitions in prior years 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 operating results as management consider these cost to be part of the underlying trading performance of the business.

Notes to the financial statements continued

5 Profit for the year (including discontinued operations)

Year ended 31 December	2021 US\$m	2020 US\$m
Profit for the year is stated after charging/(crediting):		
Amortisation of intangible assets	6.0	7.2
Depreciation of owned property, plant and equipment	28.2	30.5
Depreciation of right-of-use assets	19.4	18.3
Loss/(profit) on disposal of property, plant and equipment	0.1	(1.0)
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	0.7	0.6
– Fees payable for the audit of the Company's subsidiaries	1.5	1.5
Other Deloitte services:		
– Taxation services	0.2	0.1
– Other services	0.2	0.2
Total fees charged by Deloitte LLP	2.6	2.4
Research and development expenditure	6.1	6.4
Bad and doubtful debts	(0.2)	3.1
Net foreign exchange losses	0.5	3.2
Rental income from land and buildings	(0.2)	(0.2)
Inventory as a material component of cost of sales	631.4	487.1
Inventory write-downs to net realisable value	5.3	4.5

6 Finance income

Year ended 31 December	2021 US\$m	2020 US\$m
Income from investments	0.1	0.1
Other interest receivable and similar income	4.5	1.3
	4.6	1.4

Other interest receivable and similar income for the year ended 31 December 2021 includes exceptional income of \$4.2 million (2020: \$0.7 million) relating to refunds for indirect taxes in Brazil (see note 4 for further details).

7 Finance costs

Year ended 31 December	2021 US\$m	2020 US\$m
Interest on bank and other borrowings	10.7	11.2
Interest expense on lease liabilities	5.2	3.9
Net interest on pension scheme assets and liabilities	4.3	4.7
Other finance costs including unrealised gains and losses on foreign exchange contracts	2.0	5.7
	22.2	25.5

8 Staff costs

The average monthly number of employees was:

Year ended 31 December	2021	2020
Manufacturing	14,961	13,723
Other staff	3,512	3,359
Total number of employees	18,473	17,082
Comprising:		
UK	182	182
Overseas	18,291	16,900
	18,473	17,082

The total numbers employed at the end of the year were:

UK	179	183
Overseas	18,638	17,125
Total number of employees	18,817	17,308

Year ended 31 December	2021 US\$m	2020 US\$m
Employee aggregate remuneration comprised (including directors)¹:		
Wages and salaries	314.5	237.8
Social security costs	32.1	24.6
Other pension costs (note 10)	10.0	9.7
	356.6	272.1

1. This does not include any contingent consideration on acquisitions that is treated as an expense, due to it being linked to continued employment (see note 4).

Notes to the financial statements continued

9 Tax on profit from continuing operations

Year ended 31 December	2021 US\$m	2020 US\$m
UK Corporation tax at 19% (2020: 19%)	–	–
Overseas tax charge	(56.3)	(43.0)
Deferred tax credit	1.9	5.6
Total tax charge	(54.4)	(37.4)

The overseas tax charge includes withholding tax charges and other taxes not based on profits for the year ended 31 December 2021 of \$13.1 million (2020: \$12.5 million). Exceptional tax charges for the year ended 31 December 2021 were \$0.9 million (2020: \$2.2 million) relating to Brazil refunds of indirect taxes (see note 4).

The deferred tax credit of \$1.9 million for the year ended 31 December 2021 includes 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:

Year ended 31 December	2021				2020			
	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	176.8	(9.5)	(4.3)	163.0	91.1	(6.8)	(4.7)	79.6
Expected tax charge/ (credit) at the UK statutory rate of 19% (2020: 19%)	33.6	(1.8)	(0.8)	31.0	17.3	(1.3)	(0.9)	15.1
Differences between overseas and UK taxation rate	0.6	1.1	(0.1)	1.6	(0.7)	0.3	(0.1)	(0.5)
Non-deductible expenses	0.9	1.6	–	2.5	0.6	1.3	–	1.9
Non-taxable income	(0.6)	–	–	(0.6)	(0.4)	–	–	(0.4)
Local tax incentives	(0.7)	–	–	(0.7)	–	–	–	–
Utilisation of unrecognised deferred tax assets	(3.5)	–	–	(3.5)	(1.5)	–	–	(1.5)
Potential deferred tax assets not recognised	7.0	–	0.4	7.4	5.9	1.9	0.5	8.3
Impact of changes in tax rates	1.7	–	–	1.7	(0.6)	–	–	(0.6)
Prior year adjustments	1.9	–	–	1.9	2.6	–	–	2.6
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	13.1	–	–	13.1	12.5	–	–	12.5
Income tax expense/ (credit)	54.0	0.9	(0.5)	54.4	35.7	2.2	(0.5)	37.4
Effective tax rate	31%	(9)%	12%	33%	39%	(32)%	11%	47%

1. Other adjustments consist of net interest on pension scheme assets and liabilities of \$4.3 million (2020: \$4.7 million).

9 Tax on profit from continuing operations continued

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 31% (2020: 39%). The lower rate was driven by higher year on year profits, improved profit mix and a reduction in withholding taxes.

Uncertain tax positions

The Group's current tax liability includes a number of tax provisions, which although individually are relatively small, together they total \$20.2 million (2020: \$15.0 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.

Notes to the financial statements continued

9 Tax on profit from continuing operations continued

Taxation paid

During the year the Group made Corporate Income Tax payments in respect of continuing operations (including withholding and dividend distribution taxes) of \$47.9 million (2020: \$46.3 million). The amount of tax paid in each jurisdiction is as follows:

Year ended 31 December	2021 US\$m	2020 US\$m
UK	9.3	12.3
Vietnam	13.9	14.0
Indonesia	4.4	2.7
China	3.8	3.0
India	3.0	2.5
Singapore	2.3	1.7
Bangladesh	1.8	2.2
Colombia	1.3	0.9
Hong Kong	1.2	0.8
Spain	1.0	0.9
Thailand	1.0	0.6
Pakistan	0.8	0.2
Sri Lanka	0.8	0.9
Hungary	0.7	0.3
Poland	0.5	0.6
Turkey	0.4	(0.5)
Brazil	0.2	1.0
Morocco	–	0.7
Others (19 countries each less than \$0.5 million)	1.5	1.5
Total Corporate Income Tax paid	47.9	46.3

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 current year the Group paid withholding taxes in the following jurisdictions:

	2021 US\$m	2020 US\$m
Indonesia	2.9	2.7
India	2.0	0.8
China	1.9	0.9
Bangladesh	1.8	1.5
Vietnam	1.7	1.2
Estonia	0.6	2.8
Thailand	0.5	0.5
Others (each less than \$0.5 million)	0.4	3.6
Total withholding taxes paid	11.8	14.0

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 2021 US\$m	US\$m	Year ended 31 December 2020 US\$m
Defined contribution schemes		4.0		3.7
Defined benefit schemes –				
Coats US funded	2.0		1.8	
Other funded and unfunded	4.0		4.2	
		6.0		6.0
Past service credit		(0.2)		(0.6)
Settlements		(3.5)		–
Administrative expenses for defined benefit schemes		5.0		4.9
		11.3		14.0

b) Defined contribution schemes

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

c) Defined benefit schemes

The 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. In 2019 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. During the current year the Group carried out a "spin and termination" transaction whereby a proportion of the current retiree benefits were secured with an insurance company, whilst releasing a proportion of the surplus to the company to fund future 401k employer contributions. Due to favourable pricing the transaction resulted in a non cash settlement gain of \$3.6 million which has been included in operating profit.

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 158. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. The Coats UK Pension Scheme is currently over 85% (2020: 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 158. 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 85% (2020: 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 159. 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.	<p>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.</p> <p>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 fixed income benchmark to match the liabilities and protect the funded status.</p> <p>In addition the schemes' investment policies recognise the need to generate cash flows to meet members' benefits as they fall due.</p>

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 2021.

On 16 November 2021 Coats Limited and the Trustee of the Coats UK Pension Scheme agreed the valuation of the Coats UK Pension Scheme with a 31 March 2021 effective date. This agreement resulted in ongoing annual deficit recovery payments of £22 million (\$29 million at 31 December 2021 exchange rate) per annum increasing annually by the increase in the Retail Prices Index (first increase in January 2022) based on a Technical Provisions deficit of £193 million (\$261 million). At 31 March 2021 the market value of assets were £2,221 million (\$3,005 million) and liabilities were £2,414 million (\$3,266 million) resulting in the Technical Provisions deficit of £193 million (\$261 million). As before the Group will also meet Scheme administrative expenses and levies estimated in future at £4 million (\$5 million) per annum (ie total ongoing payments of \$34 million per annum, excluding the below deferred deficit recovery payments). The new deficit recovery payments were effective from 1 April 2021 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2024.

In line with the terms of agreement with the trustees of the Coats UK Pension Scheme, the Group started to repay the deferred deficit recovery payments for April-December 2020 inclusive (circa \$21 million deferred due to Covid underpinning actions). The first payment was made on 25th May 2021 and during the year a total of \$9 million has been repaid, with the remaining \$12 million due to be repaid by the end of November 2022.

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 2021.

The most recent actuarial valuation for the Coats UK pension scheme had a 31 March 2021 effective date and the most recent actuarial valuation for the Coats US scheme was 1 January 2021.

iii) Principal assumptions

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

	Coats UK Pension Scheme %	Coats US %	Other %
Principal assumptions at 31 December 2021			
Rate of increase in salaries	–	3.0	4.9
Rate of increase for pensions in payment	Various	–	2.9
Discount rate	1.9	2.8	4.0
Inflation assumption	3.5	2.2	3.0
Principal assumptions at 31 December 2020			
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

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 3.4% (2020: 3.0%). For former Staveley scheme members, the majority of the increases for pensions in payment fall within the range 2.6%–3.4% (2020: 2.4%–3.0%). For former Brunel scheme members, the majority of the increases for pensions in payment fall within the range 3.2%–4.0% (2020: 3.0%–4.0%).

The assumed life expectancy on retirement is:

	Year ended 31 December 2021		Year ended 31 December 2020	
	Coats UK Pension Scheme Years	Coats US Years	Coats UK Pension Scheme Years	Coats US Years
Retiring today at age 60:				
Males	25.8	24.8	25.7	24.7
Females	28.6	27.0	27.9	26.8
Retiring in 20 years at age 60:				
Males	27.3	26.5	27.2	26.3
Females	30.0	28.6	29.5	28.4

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:

Year ended 31 December 2021	Coats UK Pension Scheme US\$m	Coats US US\$m	Other US\$m	Group US\$m
Current service cost	–	(2.0)	(4.0)	(6.0)
Past service (cost)/credit	–	(0.1)	0.3	0.2
Settlements	–	3.6	(0.1)	3.5
Administrative expenses	(4.2)	(0.7)	(0.1)	(5.0)
	(4.2)	0.8	(3.9)	(7.3)
Interest on defined benefit obligations – unwinding of discount	(41.0)	(1.9)	(3.6)	(46.5)
Interest income on pension scheme assets	39.6	4.0	0.8	44.4
Effect of asset cap	–	(1.8)	(0.4)	(2.2)
	(1.4)	0.3	(3.2)	(4.3)

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)
Interest on defined benefit obligations – unwinding of discount	(4.5)	(2.2)	(3.6)	(10.3)
	(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)

v) Amounts recognised in the consolidated statement of comprehensive income

Actuarial gains and losses were as follows:

	Year ended 31 December 2021 US\$m	Year ended 31 December 2020 US\$m
Effect of changes in demographic assumptions	(30.7)	(10.4)
Effect of changes in financial assumptions	125.7	(321.6)
Effect of experience adjustments	64.3	13.7
Remeasurement on assets (excluding interest income)	50.6	286.3
Adjustment due to surplus cap	2.9	(7.7)
Included in the statement of comprehensive income	212.8	(39.7)

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 2021	Coats UK Pension Scheme US\$m	Coats US US\$m	Other US\$m	Total US\$m
Cash and cash equivalents	73.3	4.0	2.7	80.0
Equity instruments:				
US	124.0	17.8	1.2	143.0
UK	7.9	–	–	7.9
Eurozone	17.2	–	–	17.2
Other regions	43.9	17.1	3.5	64.5
Debt instruments:				
Corporate bonds (Investment grade)	767.5	68.7	3.6	839.8
Corporate bonds (Non-investment grade)	244.3	2.6	–	246.9
Government/sovereign instruments	1,440.9	31.2	–	1,472.1
Global real estate	300.0	–	0.1	300.1
Derivatives:				
Total return, interest and inflation swaps	0.6	–	–	0.6
Assets held by insurance company:				
Insurance contracts	2.7	0.5	0.8	4.0
Diversified investment fund	–	–	4.3	4.3
Other	120.6	0.1	0.4	121.1
Total market value of assets	3,142.9	142.0	16.6	3,301.5
Actuarial value of scheme liabilities	(3,034.9)	(46.9)	(114.9)	(3,196.7)
Net asset/(liability) in the scheme	108.0	95.1	(98.3)	104.8
Adjustment due to surplus cap	–	(83.5)	(0.2)	(83.7)
Recoverable net asset/(liability) in the scheme	108.0	11.6	(98.5)	21.1

Notes to the financial statements continued

10 Retirement and other post-employment benefit arrangements continued

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)

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

Year ended 31 December	2021 US\$m	2020 US\$m
Non-current assets:		
Funded	159.7	11.4
Current assets:		
Funded	5.2	4.8
Current liabilities:		
Funded	(41.9)	(35.3)
Unfunded	(6.1)	(7.1)
Non-current liabilities:		
Funded	(5.6)	(100.1)
Unfunded	(90.2)	(99.5)
	21.1	(225.8)

The schemes disclosed as part of the 'other' column in the tables above include surplus positions of \$3.8 million (2020: \$0.6 million).

10 Retirement and other post-employment benefit arrangements continued

	Year ended 31 December 2021 US\$m	Year ended 31 December 2020 US\$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	(3,588.5)	(3,275.6)
Current service cost	(6.0)	(6.0)
Decrease in liabilities on settlements	69.6	–
Past service credit	0.2	0.6
Interest on defined benefit obligations – unwinding of discount	(46.5)	(63.4)
Actuarial gains/(losses) on obligations	159.3	(318.3)
Contributions from members	(0.1)	(0.1)
Benefits paid	177.1	178.5
Exchange difference	38.2	(104.2)
At 31 December	(3,196.7)	(3,588.5)
Movements in the fair value of scheme assets were as follows:		
At 1 January	3,447.1	3,168.7
Interest income on scheme assets	44.4	61.3
Remeasurement on assets (excluding interest income)	50.6	286.3
Decrease in assets on settlements	(66.1)	–
Assets transferred out of schemes (see note 19)	(7.0)	–
Contributions from members	0.1	0.1
Contribution from sponsoring companies	44.2	13.0
Benefits paid	(177.1)	(178.5)
Administrative expenses paid from plan assets	(1.0)	(0.5)
Exchange difference	(33.7)	96.7
At 31 December	3,301.5	3,447.1
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	84.4	74.4
Interest cost on unrecognised surplus	2.2	2.6
Changes in the effect of limiting a net defined benefit asset to the asset ceiling (excluding interest)	(2.9)	7.7
Exchange difference	–	(0.3)
Unrecognised surplus at 31 December	83.7	84.4

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 (2020: \$0.4 million) of US equity instruments, \$68.7 million (2020: \$113.1 million) of corporate bonds (Investment grade), \$2.6 million (2020: \$4.0 million) of corporate bonds (Non-investment grade), government/sovereign instruments of \$nil (2020: \$15.2 million), \$0.5 million (2020: \$0.5 million) of insurance contracts and \$0.5 million (2020: \$44.1 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 \$95.1 million at 31 December 2021 of which a recoverable surplus of \$11.6 million is recognised on the Balance Sheet.

The Coats UK Pension Scheme has moved into an IAS 19 surplus position during 2021. The Group has 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 (2020: 15 years) for the Coats UK scheme and 11 years (2020: 8 years) for the Coats US scheme.

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 2021		Year ended 31 December 2020	
	+0.25% US\$m	-0.25% US\$m	+0.25% US\$m	-0.25% US\$m
Coats UK Pension Scheme discount rate	(108.8)	115.0	(127.3)	135.2
Coats US discount rate	(1.2)	1.3	(3.4)	3.5
Coats UK Pension Scheme inflation rate	74.6	(72.0)	89.6	(99.3)
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 \$401.4 million and \$4.9 million (2020: \$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 \$502.7 million and \$6.0 million (2020: \$594.6 million and \$15.0 million) respectively. The above sensitivity analysis (on a IAS 19 basis) considers the impact on the scheme liabilities only and excludes any impacts on scheme assets from changes in discount and inflation rates. As noted on page 152, the Coats UK Pension Scheme is currently over 85% hedged against interest rate and inflation rate movements. Therefore on a Technical Provision basis, to the extent there is a change in the scheme liabilities due to movements in discount and inflation rates there would be offsetting impacts from the scheme assets due to the hedging in place.

10 Retirement and other post-employment benefit arrangements continued

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by \$105.8 million (2020: \$157.8 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by \$0.7 million (2020: \$4.3 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 2021		Year ended 31 December 2020	
	+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	1.5	(1.4)	1.6	(1.4)

xii) Expected contributions for 2022

The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2022 financial year (excluding administrative expenses paid by the Company) is \$45.4 million. This includes \$12 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.

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 shares relating to awards under the Group Deferred Bonus Plan which have been awarded but not yet reached the end of the three year retention period 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	2021 US\$m	2020 US\$m
Profit attributable to equity shareholders	88.9	26.4

Year ended 31 December	2021 Number of shares m	2020 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	1,457.1	1,455.6
Adjustment for share options and LTIP awards	5.9	1.4
Weighted average number of ordinary shares in issue for diluted earnings per share	1,463.0	1,457.0

Year ended 31 December	2021 cents	2020 cents
Basic earnings per ordinary share	6.10	1.81
Diluted earnings per ordinary share	6.07	1.81

Notes to the financial statements continued

12 Dividends

Year ended 31 December	2021 US\$m	2020 US\$m
2021 interim dividend paid – 0.61 cents per share	8.8	–
2020 final dividend paid – 1.30 cents per share	18.8	–
	27.6	–

The proposed final dividend of 1.50 cents per ordinary share for the year ended 31 December 2021 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 2022 to ordinary shareholders on the register on 29 April 2022, with an ex-dividend date of 28 April 2022.

13 Intangible assets

Cost	Acquired intangibles						Total US\$m
	Goodwill US\$m	Brands & trade names US\$m	Technology US\$m	Customer relationships US\$m	Total acquired US\$m	Computer software US\$m	
At 1 January 2020	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
Currency translation differences	(1.0)	–	(0.9)	(0.3)	(1.2)	(1.5)	(3.7)
Additions	–	–	–	–	–	2.2	2.2
Disposals	–	–	–	–	–	(9.9)	(9.9)
At 31 December 2021	26.2	243.3	17.2	6.8	267.3	77.6	371.1
Cumulative amounts charged							
At 1 January 2020	–	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
Currency translation differences	–	–	(0.4)	(0.1)	(0.5)	(1.5)	(2.0)
Amortisation charge for the year	–	0.4	2.4	0.5	3.3	2.7	6.0
Disposals	–	–	–	–	–	(9.7)	(9.7)
At 31 December 2021	–	1.7	10.7	2.9	15.3	72.9	88.2
Net book value at 31 December 2021	26.2	241.6	6.5	3.9	252.0	4.7	282.9
Net book value at 31 December 2020	27.2	242.0	9.4	4.6	256.0	5.4	288.6

13 Intangible assets continued

The carrying value of Coats brands at 31 December 2021 and 31 December 2020 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 2024, applying a pre-tax discount rate of 10.5% (2020: 10.6%) and long-term growth of 2.7% (2020: 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.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Year ended 31 December	2021 US\$m	2020 US\$m
Gotex	13.0	13.9
North America	2.6	2.6
Coats Digital	8.8	8.9
Other	1.8	1.8
	26.2	27.2

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 2024;
- discount rates; and
- growth rates used to extrapolate risk adjusted cash flows beyond the medium-term period.

CGU specific operating assumptions are applicable to the cash flows for the years 2022 to 2024 and relate to revenue forecasts and forecast operating margins. A short-term growth rate is applied to the December 2024 plan to derive the cash flows arising in 2025–2026 and a long-term rate is applied to 2026 to determine a terminal value. Revenue growth and operating margin improvement assumptions in 2025–2026 are as follows:

	Revenue growth %	Operating margin improvement %
Gotex	3.0-10.0	0.3-0.9
North America	5.6-5.6	0.3-0.4
Coats Digital	5.0-33.3	1.0-4.0

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 10.5% (2020: 10.6%) 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 12.7% for Gotex, 10.5% for North America, and 13.0% 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 630 bps in Gotex, 200 bps in North America and 1,100 bps in Coats Digital; or
- cumulative 2022–2026 revenue is 34% lower in Gotex, 22% lower in North America and 27% lower in Coats Digital; or
- cumulative 2022–2026 operating profit is 31% lower in Gotex, 17% lower in North America and 78% 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 2020	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
Currency translation differences	(4.6)	(17.2)	(2.1)	(23.9)
Additions	3.0	22.1	2.6	27.7
Disposals	(0.6)	(16.5)	(11.6)	(28.7)
At 31 December 2021	160.9	551.2	65.4	777.5
Cumulative amounts charged				
At 1 January 2020	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
Currency translation differences	(2.3)	(13.2)	(1.7)	(17.2)
Depreciation charge for the year	4.6	20.5	3.1	28.2
Impairment charge (see note 4)	–	2.0	–	2.0
Disposals	(0.6)	(15.8)	(11.6)	(28.0)
At 31 December 2021	79.1	397.8	56.2	533.0
Net book value at 31 December 2021	81.8	153.4	9.3	244.5
Net book value at 31 December 2020	85.7	158.5	10.2	254.4
Analysis of net book value of land and buildings 31 December				
			2021 US\$m	2020 US\$m
Freehold			67.8	71.0
Leasehold improvements:				
Over 50 years unexpired			1.8	2.0
Under 50 years unexpired			12.2	12.7
			81.8	85.7

15 Leases

The Group leases several assets including buildings, plants, vehicles and office equipment. The average lease term is 4 years (2020: 4 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 2021	49.7	6.4	4.6	60.7
At 31 December 2021	80.4	4.5	6.7	91.6
Depreciation expense for the year ended				
31 December 2020	12.9	2.2	3.2	18.3
31 December 2021	14.3	2.1	3.0	19.4

Additions to the right-of-use assets during the year ended 31 December 2021 were \$51.1 million (2020: \$16.2 million).

Lease liabilities

Year ended 31 December	2021 US\$m	2020 US\$m
Current	17.8	16.4
Non-current	81.2	49.6
	99.0	66.0
Maturity analysis		
Payable within one year	17.8	16.4
Payable between one and five years	46.9	34.6
Payable after more than five years	34.3	15.0
	99.0	66.0

The net increase in lease liabilities during the year ended 31 December 2021 was \$33.0 million (2020: \$1.0 million) which includes foreign exchange gains on lease liabilities of \$0.2 million (2020: losses of \$0.7 million). The total cash outflow for leases in the year ended 31 December 2021 was \$22.1 million (2020: \$19.4 million).

The Group's consolidated income statement includes the following amounts relating to leases:

Year ended 31 December	2021 US\$m	2020 US\$m
Depreciation expense	19.4	18.3
Interest expense on lease liabilities	5.2	3.9
Expenses relating to short term leases	1.1	1.5
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	0.6
Impairment of right-of-use assets	–	0.8
Income from subleasing right-of-use assets	(0.2)	(0.2)

Notes to the financial statements continued

15 Leases continued

The Group subleases some of its right-of-use assets. At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

Year ended 31 December	2021 US\$m	2020 US\$m
Receivable within one year	–	0.2
	–	0.2

16 Non-current investments

Year ended 31 December	2021 US\$m	2020 US\$m
Interests in joint ventures (see below)	12.0	11.1
Investments in equity securities:		
Unlisted investments	6.0	6.0
	18.0	17.1

Other investments included within current assets were \$nil at 31 December 2021 (2020: \$0.1 million).

Interests in joint ventures	US\$m
At 1 January 2021	11.1
Dividends receivable	(0.3)
Share of profit after tax	1.2
At 31 December 2021	12.0

Year ended 31 December	2021 US\$m	2020 US\$m
Share of net assets on acquisition	10.6	10.6
Share of post-acquisition retained profits	1.4	0.5
Share of net assets	12.0	11.1

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	2021 US\$m	2020 US\$m
Summarised income statement information:		
Revenue	27.9	20.8
Profit before tax	1.7	0.8
Taxation	(0.5)	(0.2)
Profit after tax	1.2	0.6

16 Non-current investments continued

Year ended 31 December	2021 US\$m	2020 US\$m
Summarised balance sheet information:		
Non-current assets	5.6	5.7
Current assets	15.0	12.9
	20.6	18.6
Liabilities due within one year	(8.6)	(7.5)
Net assets	12.0	11.1

17 Deferred tax assets

Year ended 31 December	2021 US\$m	2020 US\$m
Deferred tax assets	20.7	22.7

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:

	2021 US\$m	2020 US\$m
At 1 January	22.7	16.2
Currency translation differences	(0.6)	0.6
Reclassified from deferred tax liability	(0.1)	5.2
Transfer to current tax	–	(0.2)
(Charged)/credited to the income statement	(0.3)	0.8
(Charged)/credited to other comprehensive income and expense	(1.0)	0.1
At 31 December	20.7	22.7

18 Inventories

Year ended 31 December	2021 US\$m	2020 US\$m
Raw materials and consumables	127.7	96.6
Work in progress	38.0	28.0
Finished goods and goods for resale	84.4	62.4
	250.1	187.0

Notes to the financial statements continued

19 Trade and other receivables

Year ended 31 December	2021 US\$m	2020 US\$m
Non-current assets:		
Income tax assets	–	0.5
Trade receivables	1.1	0.6
Other receivables	20.5	12.4
Prepaid pension contributions	5.8	–
Derivative financial instruments	1.3	5.5
	28.7	19.0
Current assets:		
Trade receivables	240.4	223.5
Current income tax assets	6.4	6.8
Prepayments and accrued income	7.0	5.6
Derivative financial instruments	4.2	3.5
Prepaid pension contributions	1.2	–
Amounts due from joint ventures	0.1	–
Other receivables	43.4	35.1
	302.7	274.5

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 \$7.7 million (2020: \$6.2 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 \$8.9 million (2020: \$10.2 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 2021
Expected loss rate	0.3%	2%	35%	80%	
Gross carrying amount (US\$m)	214.9	24.9	2.0	8.6	250.4
Loss allowance provision (US\$m)	0.7	0.6	0.7	6.9	8.9
	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

19 Trade and other receivables continued

The movements in the expected loss allowance are analysed as follows:

	2021 US\$m	2020 US\$m
At 1 January	10.2	8.1
Currency translation differences	(0.6)	(0.4)
(Credited)/charged to the income statement	(0.2)	3.1
Amounts written off during the year	(0.5)	(0.6)
At 31 December	8.9	10.2

20 Derivative financial instruments – assets

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

Year ended 31 December	2021 US\$m	2020 US\$m
Fair value through the income statement:		
Forward foreign currency contracts	3.6	4.4
Interest rate swap contracts	1.9	4.6
	5.5	9.0
Amounts shown within non-current assets	1.3	5.5
Amounts shown within current assets	4.2	3.5

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	2021 US\$m	2020 US\$m
Amounts falling due within one year:		
Trade payables	208.5	158.5
Amounts owed to joint ventures	16.3	12.4
Other tax and social security payable	7.7	8.0
Other payables	36.7	29.7
Accruals	50.8	32.1
Contract liabilities	6.8	6.5
Derivative financial instruments	0.8	–
Employee entitlements (excluding pensions)	19.2	8.5
	346.8	255.7
Amounts falling due after more than one year:		
Other payables	21.3	16.1
Contract liabilities	1.7	0.6
Employee entitlements (excluding pensions)	1.1	1.1
Derivative financial instruments	0.1	0.3
	24.2	18.1

Notes to the financial statements continued

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 \$6.7 million (2020: \$5.8 million) which were outstanding at 31 December 2020 were released to revenue during the year ended 31 December 2021, with the remainder expected to be released in 2022.

22 Derivative financial instruments – liabilities

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

Year ended 31 December	2021 US\$m	2020 US\$m
Fair value through the income statement:		
Forward foreign currency contracts	0.9	0.3
	0.9	0.3
Amounts shown within non-current liabilities	0.1	0.3
Amounts shown within current liabilities	0.8	–

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

23 Borrowings

Year ended 31 December	2021 US\$m	2020 US\$m
Bank overdrafts	16.4	19.8
Borrowings repayable within one year	2.8	3.0
Due within one year	19.2	22.8
Borrowings repayable between one and two years	–	0.4
Borrowings repayable between two and five years	135.1	129.3
Due after more than five years	100.0	100.0
Due after more than one year	235.1	229.7
Bank overdrafts	16.4	19.8
Series A and Series B Senior Notes	227.5	230.4
Bank and other borrowings	10.4	2.3
	254.3	252.5

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.

In April 2021 the Group entered into a \$360.0 million three year bank facility, with the ability for two one-year extensions. The facility bears interest at the risk free rate plus a credit adjustment spread and a margin. The facility also includes an ESG component which impacts the margin based on performance against three of the Group's published sustainability targets.

Series A and Series B Senior Notes at 31 December 2021 of \$227.5 million includes a fair value adjustment to the nominal amount outstanding of \$2.5 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 32 on page 183.

24 Deferred tax liabilities

	2021 US\$m	2020 US\$m
At 1 January	9.0	8.2
Currency translation differences	0.2	0.4
Reclassified from deferred tax assets	(0.1)	5.2
Credited to the income statement	(2.2)	(4.8)
Credited to equity	(0.1)	–
At 31 December	6.8	9.0

	2021		2020	
	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	13.9	(17.5)	16.0	(12.6)
Other temporary differences	(15.4)	(10.8)	(12.0)	(9.2)
Revenue losses carried forward	(11.4)	(298.4)	(13.6)	(330.8)
Capital losses carried forward	–	(355.7)	–	(290.3)
Investment in subsidiaries	5.8	5.3	3.3	4.3
Brands	59.9	–	45.5	–
Retirement benefit obligations offset against brands	(59.9)	–	(45.5)	–
Retirement benefit obligations	(6.8)	(2.8)	(7.4)	15.3
	(13.9)	(679.9)	(13.7)	(623.3)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Deferred tax assets (note 17)	(20.7)	(22.7)
Deferred tax liabilities	6.8	9.0
	(13.9)	(13.7)

At the year end, the Group had approximately \$1.6 billion (2020: \$1.6 billion) of unused gross income tax losses and approximately \$1.4 billion (2020: \$1.5 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of \$11.4 million (2020: \$13.6 million) has been recognised in respect of \$36.9 million (2020: \$56.7 million) of such income tax losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

Notes to the financial statements continued

24 Deferred tax liabilities continued

The Group's income tax losses can be analysed as follows:

	2021 US\$m	2020 US\$m
Expiring within 5 years	33.2	41.8
Expiring in more than 5 years	15.5	13.9
Available indefinitely	1,510.5	1,530.9
	1,559.2	1,586.6

At 31 December 2021, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is \$5.3 million (2020: \$4.3 million). Deferred tax on distribution of these profits has not been provided on the grounds that the Group is able to control the timing of the reversal of the remaining temporary differences and it is probable that they will not reverse in the foreseeable future.

25 Provisions

Year ended 31 December	2021 US\$m	2020 US\$m
Provisions are included as follows:		
Current liabilities	8.1	8.2
Non-current liabilities	27.7	27.9
	35.8	36.1

Provisions are analysed as follows:

Year ended 31 December	2021 US\$m	2020 US\$m
Property related provisions	2.1	2.2
Other provisions	33.7	33.9
	35.8	36.1

	Property related provisions US\$m	Other provisions US\$m	Total US\$m
At 1 January 2021	2.2	33.9	36.1
Currency translation differences	–	(0.2)	(0.2)
Utilised in year	–	(16.1)	(16.1)
(Credited)/charged to the income statement	(0.1)	16.1	16.0
At 31 December 2021	2.1	33.7	35.8

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

Year ended 31 December	2021		2020	
	Number	US\$m	Number	US\$m
Ordinary Shares of 5p each	1,452,570,385	90.1	1,452,077,272	90.1

During the year ended 31 December 2021 the Company issued 493,113 ordinary shares of 5p each (2020: 7,261,231) following the exercise of share options as set out below:

	Number of shares	US\$m
At 1 January 2021	1,452,077,272	90.1
Issue of ordinary shares	493,113	–
At 31 December 2021	1,452,570,385	90.1

The own shares reserve of \$0.5 million at 31 December 2021 (2020: \$3.2 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 2021 was 2,020,306 (2020: 7,010,248).

Details of share awards outstanding under the Group's LTIP and Deferred Bonus Plans are set out in note 33.

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 2021	10.5	(3.2)	(89.2)	59.8	246.3	(23.8)	28.4
Dividends	–	–	–	–	–	(27.6)	(16.5)
Currency translation differences	–	–	(16.5)	–	–	–	(0.5)
Actuarial gains on employee benefits	–	–	–	–	–	212.8	–
Tax on actuarial gains	–	–	–	–	–	(1.0)	–
Movement in own shares	–	2.7	–	–	–	(0.8)	–
Share based payments	–	–	–	–	–	3.9	–
Deferred tax on share schemes	–	–	–	–	–	0.1	–
Profit for the year	–	–	–	–	–	88.9	19.7
At 31 December 2021	10.5	(0.5)	(105.7)	59.8	246.3	252.5	31.1

Notes to the financial statements continued

27 Reserves and non-controlling interests continued

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 2021 US\$m	Year ended 31 December 2020 US\$m	31 December 2021 US\$m	31 December 2020 US\$m
EMEA	0.1	–	0.9	1.5
Asia & Rest of World	19.6	15.8	30.2	26.9
	19.7	15.8	31.1	28.4

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 198 to 206.

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 in a settlement or court ruling 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 should be a de minimis or even smaller de micromis party in an eventual settlement or court ruling allocating remedial costs.

28 Contingent liabilities and environmental matters continued

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 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 2021, \$13.8 million of this provision had been utilised. The remaining provision at 31 December 2021, taking into account insurance reimbursement, was \$11.2 million (2020: \$12.6 million). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis 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, it is nonetheless still possible that 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 2021, the Group had commitments of \$5.1 million in respect of contracts placed for future capital expenditure (2020: \$3.7 million).

30 Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year ended 31 December	2021 US\$m	2020 US\$m
Operating profit	179.4	103.1
Depreciation of owned property, plant and equipment	28.2	30.5
Depreciation of right-of-use assets	19.4	18.3
Amortisation of intangible assets	6.0	7.2
(Increase)/decrease in inventories	(76.0)	4.9
(Increase)/decrease in debtors	(49.8)	1.1
Increase/(decrease) in creditors	101.4	(28.7)
Provision and pension movements	(34.5)	(14.0)
Foreign exchange and other non-cash movements	14.9	5.7
Discontinued operations	–	(0.1)
Cash generated from operations	189.0	128.0

Notes to the financial statements continued

30 Notes to the consolidated cash flow statement continued

b) Taxation paid

Year ended 31 December	2021 US\$m	2020 US\$m
Overseas tax paid	(47.9)	(46.3)

c) Investment income

Year ended 31 December	2021 US\$m	2020 US\$m
Dividends received from joint ventures	0.3	0.9

d) Capital expenditure and financial investment

Year ended 31 December	2021 US\$m	2020 US\$m
Acquisition of property, plant and equipment and intangible assets	(31.2)	(15.4)
Acquisition of other equity investments	0.1	0.1
Disposal of property, plant and equipment	0.8	3.0
	(30.3)	(12.3)

e) Acquisitions and disposals of businesses

Year ended 31 December	2021 US\$m	2020 US\$m
Acquisition of businesses	–	(36.9)

f) Net debt

Year ended 31 December	2021 US\$m	2020 US\$m
Cash and cash equivalents	107.2	71.9
Bank overdrafts	(16.4)	(19.8)
Net cash and cash equivalents	90.8	52.1
Borrowings (see note 23)	(237.9)	(232.7)
Net debt excluding lease liabilities	(147.1)	(180.6)
Lease liabilities (see note 15)	(99.0)	(66.0)
Total net debt	(246.1)	(246.6)

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 2021 for covenant purposes was \$148.0 million (31 December 2020: \$177.0 million).

30 Notes to the consolidated cash flow statement continued

The components of net debt and movements during the periods are set out below:

	Series A and Series B Senior Notes US\$m	Bank loans US\$m	Lease liabilities US\$m	Bank overdrafts US\$m	Total financing activity liabilities US\$m	Cash at bank and in hand US\$m	Net debt US\$m
At 1 January 2020	(225.0)	(60.8)	(65.0)	(41.5)	(392.3)	177.4	(214.9)
Cash flows	–	58.7	19.4	21.7	99.8	(103.6)	(3.8)
Non-cash movements	(5.4)	(0.7)	(19.7)	–	(25.8)	–	(25.8)
Foreign exchange	–	0.5	(0.7)	–	(0.2)	(1.9)	(2.1)
At 31 December 2020	(230.4)	(2.3)	(66.0)	(19.8)	(318.5)	71.9	(246.6)
Cash flows	–	(8.4)	22.1	3.1	16.8	37.9	54.7
Non-cash movements	2.9	(1.4)	(55.3)	–	(53.8)	–	(53.8)
Foreign exchange	–	1.7	0.2	0.3	2.2	(2.6)	(0.4)
At 31 December 2021	(227.5)	(10.4)	(99.0)	(16.4)	(353.3)	107.2	(246.1)

The non-cash movement during the year ended 31 December 2021 of \$2.9 million (2020: \$5.4 million) within Series A and Series B Senior Notes represents the movement in the fair value adjustment to the nominal amount outstanding of \$225.0 million and relates to interest rate swaps which are accounted for as fair value hedges.

The non-cash movement during the year ended 31 December 2021 of \$55.3 million (2020: \$19.7 million) within lease liabilities relates to the following: the unwind of lease liabilities of \$5.2 million (2020: \$3.9 million) and the impact of entering into new leases, disposals and modification of existing leases of \$50.1 million (2020: \$15.8 million).

Total net debt is presented in the consolidated statement of financial position as follows:

Year ended 31 December	2021 US\$m	2020 US\$m
Current assets:		
Cash and cash equivalents	107.2	71.9
Current liabilities:		
Bank overdrafts and other borrowings	(19.2)	(22.8)
Lease liabilities	(17.8)	(16.4)
Non-current liabilities:		
Borrowings	(235.1)	(229.7)
Lease liabilities	(81.2)	(49.6)
Total net debt	(246.1)	(246.6)

Notes to the financial statements continued

31 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 96 to 113 in the audited part of the Directors' Remuneration Report.

Year ended 31 December	2021 US\$m	2020 US\$m
Short-term employee benefits	10.4	6.0
Share based payments	1.6	0.7
	12.0	6.7

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	
	2021 US\$m	2020 US\$m	2021 US\$m	2020 US\$m
Joint ventures	2.7	5.9	61.1	45.7

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.

32 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.

32 Derivatives and other financial instruments continued**Financial assets**

The Group's financial assets are summarised below:

Year ended 31 December	2021 US\$m	2020 US\$m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	107.2	71.9
Trade receivables (note 19)	241.5	224.1
Amounts due from joint ventures (note 19)	0.1	–
Other receivables (note 19), net of non-financial assets \$29.9 million (2020: \$23.0 million)	34.0	24.5
	382.8	320.5
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 20)	5.5	9.0
	5.5	9.0
Other financial assets carried at fair value through the statement of comprehensive income:		
Other investments (note 16)	6.0	6.1
	6.0	6.1
Total financial assets	394.3	335.6

Financial liabilities

The Group's financial liabilities are summarised below:

Year ended 31 December	2021 US\$m	2020 US\$m
Financial liabilities carried at amortised cost:		
Trade payables (note 21)	208.5	158.5
Amounts owed to joint ventures (note 21)	16.3	12.4
Other financial liabilities	116.3	78.3
Provisions (note 25)	2.1	2.2
Lease liabilities (note 15)	99.0	66.0
Borrowings (note 23)	186.8	182.1
	629.0	499.5
Financial liabilities carried at fair value through the income statement:		
Borrowings (note 23)	67.5	70.4
Derivative financial instruments (note 22)	0.9	0.3
	68.4	70.7
Total financial liabilities	697.4	570.2

Other financial liabilities include other payables, other than taxation and other statutory liabilities.

Notes to the financial statements continued

32 Derivatives and other financial instruments continued

Fair value of financial assets and liabilities

The fair value of the Group's financial assets and liabilities is summarised below:

Year ended 31 December	2021		2020	
	Book value US\$m	Fair value US\$m	Book value US\$m	Fair value US\$m
Primary financial instruments:				
Cash and cash equivalents	107.2	107.2	71.9	71.9
Trade receivables	241.5	241.5	224.1	224.1
Amounts due from joint ventures	0.1	0.1	–	–
Other receivables	34.0	34.0	24.5	24.5
Other investments	6.0	6.0	6.1	6.1
Trade payables	(208.5)	(208.5)	(158.5)	(158.5)
Amounts owed to joint ventures	(16.3)	(16.3)	(12.4)	(12.4)
Other financial liabilities and provisions	(118.4)	(118.4)	(80.5)	(80.5)
Borrowings	(254.3)	(254.3)	(252.5)	(252.5)
Derivative financial instruments:				
Forward foreign currency contracts	2.7	2.7	4.1	4.1
Interest rate swaps	1.9	1.9	4.6	4.6
Net financial liabilities	(204.1)	(204.1)	(168.6)	(168.6)

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 (ie as prices) or indirectly (ie 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).

32 Derivatives and other financial instruments continued**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
2021				
Financial assets measured at fair value through the income statement:				
Trading derivatives	3.6	–	3.6	–
Derivatives designated as effective hedging instruments	1.9	–	1.9	–
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	6.0	1.0	–	5.0
	11.5	1.0	5.5	5.0

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

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
2021				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(0.9)	–	(0.9)	–
Borrowings	(67.5)	–	(67.5)	–
	(68.4)	–	(68.4)	–
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)	–

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 an early stage of its lifecycle and there have been no indications of impairment, the carrying value is deemed to approximate to fair value.

Notes to the financial statements continued

32 Derivatives and other financial instruments continued

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 180 to 187 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate.

Currency risk

The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of both its financial assets and financial liabilities are denominated in currencies other than US Dollars, which is the Group's presentational currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's US Dollar statement of financial position will be affected by short-term movements in exchange rates, particularly the value of Sterling, Euro, Indian Rupee and Brazilian Real. The Group's investments reflect the requirements of its customers, which results in investments in potentially more volatile developing market currencies. However, as a diverse global business, there are many natural offsets within the Group that tend to mitigate the risk associated with any individual currency volatility.

The Group uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted by group companies in currencies other than their functional currency. Such foreign currency contracts are only entered into when there is a commitment to the underlying transaction. The contracts used to hedge future transactions typically have a maturity of between three months and one year.

Interest rate risk

In 2021, 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 \$360.0 million, of which \$10.0 million had been drawn down at year end and \$225.0 million of Senior Notes (see note 23).

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. 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 2021 the Group has fixed to floating 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 2021 was \$1.9 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 \$2.5 million (2020: \$2.2 million), and would reduce shareholders' funds by approximately \$2.5 million (2020: \$2.2 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.

32 Derivatives and other financial instruments continued**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 174), 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.

Functional currency 2021	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	–	(2.2)	(1.5)	–	–	0.5	(3.2)
United States dollars	(7.5)	–	(9.1)	–	–	1.7	(14.9)
Euros	–	1.4	–	–	–	(0.1)	1.3
Indian Rupees	–	(1.0)	(0.3)	–	–	–	(1.3)
Brazilian Reals	–	(1.6)	0.2	–	–	0.1	(1.3)
Other currencies	(0.3)	(17.9)	5.8	0.3	–	–	(12.1)
	(7.8)	(21.3)	(4.9)	0.3	–	2.2	(31.5)

Functional currency 2020	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	–	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)

Notes to the financial statements continued

32 Derivatives and other financial instruments continued

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:

	Sterling US\$m	Euro US\$m	Indian Rupees US\$m	Brazilian Reals US\$m
2021				
Increase in US dollar exchange rate	10%	10%	10%	10%
(Decrease)/increase in profit before tax	(2.4)	(1.0)	0.1	0.2
Increase/(decrease) in shareholders' funds	21.6	(1.4)	4.9	0.1
2020				
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

Currency profile of financial assets

The currency profile of the Group's financial assets was as follows:

31 December	2021					2020				
	Investments US\$m	Cash and cash equivalents US\$m	Trade and other receivables US\$m	Derivative financial instruments US\$m	Total US\$m	Investments US\$m	Cash and cash equivalents US\$m	Trade and other receivables US\$m	Derivative financial instruments US\$m	Total US\$m
Currency:										
Sterling	–	0.4	4.7	66.0	71.1	–	0.1	5.3	104.5	109.9
United States dollars	5.0	55.1	127.2	(99.7)	87.6	5.0	40.0	111.1	(106.8)	49.3
Euros	0.1	2.5	22.7	(14.9)	10.4	0.1	1.7	21.7	–	23.5
Indian Rupees	0.9	9.2	22.3	12.5	44.9	1.0	8.0	22.2	1.6	32.8
Brazilian Reals	–	2.2	22.9	–	25.1	–	2.6	13.2	(3.9)	11.9
Other currencies	–	37.8	75.8	41.6	155.2	–	19.5	75.1	13.6	108.2
Total financial assets	6.0	107.2	275.6	5.5	394.3	6.1	71.9	248.6	9.0	335.6

The investments included above comprise listed and unlisted investments in shares and bonds.

32 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:

31 December	2021						2020					
	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	0.5	–	13.8	4.5	(42.9)	(24.1)	0.2	–	11.4	5.1	(9.6)	7.1
United States dollars	79.6	160.0	143.6	17.1	42.8	443.1	82.3	160.0	100.4	13.1	(9.8)	346.0
Euros	9.4	–	17.5	9.5	10.3	46.7	6.6	–	12.9	2.5	20.0	42.0
Indian Rupees	–	–	52.0	10.3	–	62.3	–	–	37.8	13.3	–	51.1
Brazilian Reals	–	–	10.4	–	1.2	11.6	–	–	11.7	0.1	4.1	15.9
Other currencies	2.0	2.8	105.9	57.6	(10.5)	157.8	–	3.5	77.1	31.9	(4.4)	108.1
Total financial liabilities	91.5	162.8	343.2	99.0	0.9	697.4	89.1	163.5	251.3	66.0	0.3	570.2

The benchmark for determining floating rate liabilities in the UK is the risk-free rate for both sterling and US\$ amounts.

Details of fixed and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

Year ended 31 December	2021			2020		
	Fixed rate financial liabilities	Financial liabilities on which no interest is paid	Financial liabilities on which no interest is paid	Fixed rate financial liabilities	Financial liabilities on which no interest is paid	Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Currency:						
Sterling	–	–	18	–	–	18
United States dollars	4.00	58	–	4.00	70	–
Other currencies	23.95	9	–	16.74	10	–
Weighted average	4.34	57	18	4.27	69	18

Notes to the financial statements continued

32 Derivatives and other financial instruments continued

Currency profile of foreign exchange derivatives

Year ended 31 December	Assets		Liabilities	
	2021 US\$m	2020 US\$m	2021 US\$m	2020 US\$m
Currency:				
Sterling	109.6	114.1	(0.7)	–
United States dollars	35.2	32.1	(179.6)	(133.8)
Euros	–	–	(25.2)	(20.0)
Indian Rupee	12.5	1.6	–	–
Brazilian Real	–	–	(1.2)	(7.9)
Other currencies	64.2	25.5	(12.1)	(7.5)
	221.5	173.3	(218.8)	(169.2)

Market price risk

The Group has equity and bond investments at 31 December 2021 of \$6.0 million (2020: \$6.1 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	2021 US\$m	2020 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	2021 US\$m	2020 US\$m
Expiring between one and two years	–	350.0
Expiring between two and five years	350.0	–

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	2021 US\$m	2020 US\$m
In one year or less, or on demand	366.2	312.0
In more than one year but not more than two years	12.6	5.2
In more than two years but not more than five years	4.0	3.5
In more than five years	6.0	6.1
	388.8	326.8

32 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	2021 US\$m	2020 US\$m
In one year or less, or on demand	380.1	290.3
In more than one year but not more than two years	22.3	18.8
In more than two years but not more than five years	176.3	155.0
In more than five years	142.6	122.5
	721.3	586.6

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:

Year ended 31 December	Assets		Liabilities	
	2021 US\$m	2020 US\$m	2021 US\$m	2020 US\$m
In one year or less, or on demand	182.2	124.2	(178.5)	(120.8)
In more than one year but not more than two years	24.8	37.3	(24.3)	(34.2)
In more than two years but not more than five years	16.6	16.9	(16.0)	(14.3)
	223.6	178.4	(218.8)	(169.3)

Notes to the financial statements continued

Credit risk

Year ended 31 December	2021 US\$m	2020 US\$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	107.2	71.9
Derivative financial instruments	5.5	9.0
Trade receivables (net of impairment provision)	241.5	224.1
Amounts due from joint ventures	0.1	–
Other receivables	34.0	24.5
	388.3	329.5
Financial assets considered not to have exposure to credit risk:		
Other investments	6.0	6.1
Total financial assets	394.3	335.6
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	17.5	17.7
Trade receivables between 1 and 2 months over permitted credit period	5.1	4.3
Trade receivables between 2 and 3 months over permitted credit period	1.7	1.0
Trade receivables between 3 and 6 months over permitted credit period	1.3	1.2
Trade receivables in excess of 6 months over permitted credit period	1.7	1.2
Total trade receivables (net of impairment provision) in excess of permitted credit period	27.3	25.4
Trade receivables within permitted credit period	214.2	198.7
Total net trade receivables	241.5	224.1
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	0.8	1.2
Trade receivables between 1 and 2 months over permitted credit period	0.2	0.2
Trade receivables between 2 and 3 months over permitted credit period	0.3	0.2
Trade receivables between 3 and 6 months over permitted credit period	0.7	0.4
Trade receivables in excess of 6 months over permitted credit period	6.9	8.2
Total impairment provision	8.9	10.2

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, 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 (see note 19).

When determining expected losses for trade receivables, 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.

32 Derivatives and other financial instruments continued**Hedges**

During 2021, 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 2021, the fair value of such instruments was a net asset of \$4.6 million (2020: \$8.7 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	2021 US\$m	2020 US\$m
Within one year	0.9	1.2
Within one to two years	0.5	1.2
Within two to five years	0.5	2.2
	1.9	4.6

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

33 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	2021 US\$m	2020 US\$m
Long Term Incentive Plan (LTIP)	3.9	1.4
Deferred bonuses	0.5	-
	4.4	1.4

The average share price for the year ended 31 December 2021 was 65.8p (2020: 58.7p).

LTIP

Under the terms of the Coats Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options). The vesting of awards is subject to the satisfaction of a three-year performance condition, which is determined by the Remuneration Committee at the time of grant. The performance condition includes both market and non-market based measures.

Details of options outstanding under equity settled awards:

	2021 Options	2020 Options
Outstanding at 1 January	40,532,920	44,404,325
Granted during the year	15,492,212	17,113,147
Vested during the year	(7,136,430)	(545,804)
Lapsed during the year	(2,689,364)	(3,944,198)
Exercised during the year	(4,196,197)	(16,494,550)
Outstanding at 31 December	42,003,141	40,532,920
Exercisable at 31 December	4,917,104	7,776,530

The options outstanding at 31 December 2021 had a weighted average remaining contractual life of 7.7 years (2020: 7.7 years).

Notes to the financial statements continued

33 Share-based payments continued

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% (2020: 20%) of the award, being met, using the following assumptions:

	2021	2020
Vesting period	3 years	3 years
Share price at valuation date	59.2p	58.9p
Exercise price	Nil	Nil
Risk free rate	0.13%	0.09%
Expected dividend yield	0%	0%
Expected volatility	38.26%	27.84%
Fair value per share	16.8p	24.9p

Deferred bonuses

Under the terms of the Coats Group Deferred Bonus Plan, any bonuses awarded to executive directors and key senior management will be the subject of a mandatory 25% to 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 2021 had a weighted average remaining contractual life of 7.6 years (2020: 8.3 years).

34 Post balance sheet events

There are no material post balance sheet events requiring adjustment or disclosure.

35 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 definition of underlying performance is set out in note 4.

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 UKEB 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 188 to 192.

35 Alternative performance measures continued**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. The principal exchange rates used are set out in note 1.

Organic revenue growth on a CER basis measures the ability of the Group to grow sales by operating in selected geographies and segments and offering differentiated cost competitive products and services.

Adjusted organic operating profit growth on a CER basis measures the underlying profitability progression of the Group.

Adjusted operating profit is calculated by adding back exceptional and acquisition related items (see note 4 for further details).

Year ended 31 December	2021 US\$m	2020 US\$m	% Growth
Revenue from continuing operations	1,503.8	1,163.3	29%
Constant currency adjustment	–	0.6	
Revenue on a CER basis	1,503.8	1,163.9	29%
Revenue from acquisitions ¹	(4.3)	–	
Organic revenue on a CER basis	1,499.5	1,163.9	29%

Year ended 31 December	2021 US\$m	2020 US\$m	% Decline
Operating profit from continuing operations ²	179.4	103.1	74%
Exceptional and acquisition related items (note 4)	13.7	7.5	
Adjusted operating profit from continuing operations	193.1	110.6	75%
Constant currency adjustment	–	0.1	
Adjusted operating profit on a CER basis	193.1	110.7	74%
Operating loss from acquisitions ¹	0.2	–	
Organic adjusted operating profit on a CER basis	193.3	110.7	75%

1. Revenue and operating loss from acquisitions of \$4.3 million and \$0.2 million respectively relates to Pharr High Performance Yarns (“Pharr HP”) for the month of January 2021. Pharr HP was acquired in February 2020.

2. Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

Notes to the financial statements continued

35 Alternative performance measures continued

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	2021 US\$m	2020 US\$m
Profit before taxation from continuing operations	163.0	79.6
Share of profit of joint ventures	(1.2)	(0.6)
Finance income (note 6)	(4.6)	(1.4)
Finance costs (note 7)	22.2	25.5
Operating profit from continuing operations ¹	179.4	103.1
Exceptional and acquisition related items (note 4)	13.7	7.5
Adjusted operating profit from continuing operations	193.1	110.6
Depreciation of owned property, plant and equipment	28.2	30.5
Amortisation of intangible assets	2.7	4.0
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	224.0	145.1
Depreciation of right-of-use assets	19.4	18.3
Adjusted EBITDA	243.4	163.4

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 2021 was \$246.1 million (2020: \$246.6 million).

This gives a leverage ratio of net debt including lease liabilities to Adjusted EBITDA at 31 December 2021 of 1.0 (2020: 1.5).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2021 was \$147.1 million (2020: \$180.6 million). This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2021 of 0.7 (2020: 1.2).

For the definition and calculation of net debt excluding lease liabilities see note 30 (f).

35 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 it 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	2021 US\$m	2020 US\$m
Profit before taxation	163.0	79.6
Exceptional and acquisition related items (note 4)	9.5	6.8
Net interest on pension scheme assets and liabilities	4.3	4.7
Underlying profit before taxation from continuing operations	176.8	91.1
Taxation charge from continuing operations	54.4	37.4
Tax charge in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	(0.4)	(1.7)
Underlying taxation charge from continuing operations	54.0	35.7
Underlying effective tax rate	31%	39%

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	2021 US\$m	2020 US\$m
Profit from continuing operations	108.6	42.2
Non-controlling interests	(19.7)	(15.8)
Profit from continuing operations attributable to equity shareholders	88.9	26.4
Exceptional and acquisition related items net of non-controlling interests (note 4)	9.5	6.8
Tax credit in respect of exceptional and acquisition related items	0.9	2.2
Adjusted profit from continuing operations	99.3	35.4
Weighted average number of Ordinary Shares	1,457,076,765	1,455,587,353
Adjusted earnings per share (cents)	6.81	2.42
Adjusted earnings per share (growth %)	181%	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2021 is 1,457,076,765 (2020: 1,455,587,353), the same as that used for basic earnings per ordinary share from continuing operations (see note 11).

e) Adjusted free cash flow

Net cash generated by/(absorbed in) operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below.

Consistent with previous periods, adjusted free cash flow is defined as cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, purchase of own shares by the Employee Benefit Trust and payments to the UK pension scheme.

Notes to the financial statements continued

35 Alternative performance measures continued

Adjusted free cash flow measures the Group's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.

Year ended 31 December	2021 US\$m	2020 US\$m
Change in net debt resulting from cash flows (free cash flow)	32.6	(23.2)
Acquisition of businesses	–	37.3
Net cash outflow from discontinued operations	–	0.1
Payments to UK pension scheme	42.4	10.9
Net cash flows in respect of other exceptional and acquisition related items	10.5	(1.1)
Purchase of own shares by Employee Benefit Trust	–	3.1
Dividends paid to equity shareholders	27.4	0.2
Tax outflow in respect of adjusted cash flow items	–	0.7
Adjusted free cash flow	112.9	28.0

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	2021 US\$m	2020 US\$m
Operating profit from continuing operations before exceptional and acquisition related items ¹	193.1	110.6
Non-current assets:		
Acquired intangible assets	36.8	41.8
Property, plant and equipment	244.5	254.4
Right-of-use assets	91.6	60.7
Trade and other receivables	28.7	19.0
Current assets:		
Inventories	250.1	187.0
Trade and other receivables	302.7	274.5
Current liabilities:		
Trade and other payables	(346.8)	(255.7)
Lease liabilities	(17.8)	(16.4)
Non-current liabilities		
Trade and other payables	(24.2)	(18.1)
Lease liabilities	(81.2)	(49.6)
Capital employed	484.4	497.6
ROCE	40%	22%

1. Refer to note 4 for details of exceptional and acquisition related items.

Company balance sheet

31 December	Notes	2021 US\$m	2020 US\$m
Fixed assets:			
Investments	4	1,244.2	1,244.2
Current assets:			
Cash at bank and in hand		0.8	0.6
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		(68.7)	(70.7)
Trade and other payables		(0.6)	(0.3)
Net current liabilities		(68.5)	(70.4)
Net assets		1,175.7	1,173.8
Capital and reserves:			
Share capital	5	90.1	90.1
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	(0.5)	(3.2)
Profit and loss account		983.2	984.0
Shareholders' funds		1,175.7	1,173.8

The Company reported a profit for the financial year ended 31 December 2021 of \$28.2 million (2020: \$2.2 million loss).

Rajiv Sharma
Group Chief Executive

Jackie Callaway
Chief Financial Officer

Approved by the Board 2 March 2022

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 2020	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
Profit and total comprehensive expense for the year	–	–	–	–	–	–	28.2	28.2
Dividends to equity shareholders	–	–	–	–	–	–	(27.6)	(27.6)
Movement in own shares	–	–	–	–	–	2.7	(1.4)	1.3
31 December 2021	90.1	10.5	14.1	18.5	59.8	(0.5)	983.2	1,175.7

Company cash flow statement

Year ended 31 December	2021 US\$m	2020 US\$m
Net cash flows from operating activities:		
Operating profit	27.7	0.1
Decrease in creditors	(1.4)	(0.7)
Net cash flows from operating activities	26.3	(0.6)
Net cash flows from financing activities:		
Purchase of own shares	–	(3.1)
Proceeds from sale of own shares	1.3	3.7
Dividends paid to equity shareholders	(27.4)	(0.2)
Net cash flows from financing activities	(26.1)	0.4
Net increase/(decrease) in cash and cash equivalents	0.2	(0.2)
Cash at bank and in hand at the beginning of the year	0.6	0.8
Cash at bank and in hand at the end of the year	0.8	0.6

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 2021.

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.

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 2021.

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 profit for the year attributable to shareholders was \$28.2 million (2020: \$2.2 million loss).

Details of directors' remuneration are set out on pages 96 to 113 within the Remuneration Report and form part of these financial statements.

3 Dividends

Dividends amounting to \$27.6 million in respect of the year ended 31 December 2021 were payable to Coats Group plc shareholders during the year (2020: \$nil). Details of the proposed final dividend for the year ended 31 December 2021 are set out in note 12 of the consolidated financial statements.

4 Investments

Investments in subsidiary
undertakings
US\$m

At 1 January 2021 and 31 December 2021

1,244.2

5 Share capital and reserves

There are 1,452,570,385 Ordinary Shares of 5p issued and fully paid at 31 December 2021 (2020: 1,452,077,272).

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 2021 of \$0.5 million (2020: \$3.2 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 2021 was 2,020,306 (2020: 7,010,248).

As at 31 December 2021 the Company had distributable profits of \$220.1 million (2020: \$218.2 million).

6 Related party transactions

Amounts due from and to other Group companies are disclosed on the face of the Balance Sheet on page 193.

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	Coats Australian Pty Ltd	Unit 2, 56 Keys Road, Moorabbin VIC 3189, Australia	AUD0.54 Ordinary
Australia	GPG Services Pty Limited	Level 44, 600 Bourke Street, Melbourne, Victoria, 3000, Australia	AUD1.00 Ordinary
Australia	Guinness Peat Group (Australia) Pty Limited	Level 44, 600 Bourke Street, Melbourne, Victoria, 3000, Australia	AUD1.00 Ordinary, AUD14,977.77 Redeemable Preference
Australia	Sabatica Pty Limited	Level 44, 600 Bourke Street, Melbourne, Victoria, 3000, Australia	AUD1.00 Ordinary
Bangladesh	Coats Bangladesh Limited	Tower 117, 117/A Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Bangladesh	Coats Crafts Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Brazil	Coats Corrente Ltda	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	BRL1.00 Ordinary
Brazil	Corrente Sociedade de Previdência Privada	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	Civil association
Bulgaria	Coats Bulgaria Eood	Tharigradsko shouse bld 7th Km, Sofia 1748, Bulgaria	BGL50.00 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
Canada	Coats Canada Inc	10 Roybridge Gate Blvd, Vaughan ON L4H 3M8, Canada	Common (no par value)
Canada	Staveley Services Canada Inc	44 Chipman Hill, Suite 1000, Saint John NB E2L 2A0, Canada	CAD Common, CAD Class A Pref 1, CAD Class A Pref 2
Chile	Coats Cadena Ltda	Enrique Gomez Correa 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	Coats Industrial Park, Fengtang Dadao, Tangwei Village, Bao'an District, Shenzhen, Fuyong Town, 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	Unit B12, 2nd Floor, 2nd Building, No 11 Hao Ke Zhou East Street, Haizhu District, Guangzhou, China	HKD1.00 Ordinary (90%)
China	Qingdao Coats Limited	No. 6, Sanhuan Road, Jimo Environmental Protection Industrial Park, Jimo District, Shandong, 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	New Cairo, 5th settlement, Villa 28, 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\$14.0625 Ordinary
Egypt	Coats Industrial Trading Egypt	Industrial Area Zone B3, Plot 62, 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
Germany	Coats Opti Germany GmbH	1 Suedwieke 180, 26817 Rhaderfehn, 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

Group structure continued

Country of Incorporation	Company name	Registered office address	Share class
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 Anonima	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	Unit 507, 5/F, Chinachem Golden Plaza, 77 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats Hong Kong Limited	Unit 507, 5/F, Chinachem Golden Plaza, 77 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong	HKD10.00 Ordinary (90%)
Hong Kong	Coats Opti Hong Kong Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD1.00 Ordinary
Hong Kong	Coats Thread HK Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Fast React Asia (HK) Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	HKD1.00 Ordinary
Hong Kong	Fastreact Systems (Far East) Co Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	HKD1.00 Ordinary
Hungary	Coats Magyarorszag Cernagyarto es Ertekesito Korlatolt Felelossegu Tarsasag	1044 Budapest, Vaci ut 91, Hungary	HUF100,000.00 Ordinary
India	Intellosol Softwares India Private Limited	1/22, Second Floor, Asaf Ali Road, New Delhi, Central Delhi, Delhi, 110002, 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, Lantai 5, Suite 501-B, Jl. RA Kartini No. 26, Cilandak, Jakarta Indonesia	IDR415.00 Ordinary-A, IDR627.00 Ordinary-B, US\$1.00 Preference
Indonesia	PT Coats Trading Indonesia	Ventura Building, Lantai 5, Suite 501-B, Jl. RA Kartini No. 26, Cilandak, Jakarta Indonesia	USD1.00 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
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 Mexico S.A. de C.V.	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lidice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXP1.00 Ordinary-A, MXP1.00 Ordinary-B
Morocco	Coats Maroc	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Morocco	Mercerie Industrielle de Casablanca	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Netherlands	Coats Industrial Europe Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Industrial Thread Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Northern Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats South America Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats South Asia Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Southern Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Guinness Peat Group International Holdings BV	Naritaweg 165, 1043 BW, Amsterdam, Netherlands	€14,957.00 Ordinary
New Zealand	Coats Patons (New Zealand) Ltd	3 Mana Place, Wira, Auckland, New Zealand	NZD1.00 Ordinary
Nicaragua	Coats de Nicaragua SA	Altamira d'este, Rotonda Madrid #235, Managua, Nicaragua	NIO100.00 Ordinary
Pakistan	J & P Coats Pakistan (Pvt) Limited	Suites 112-113, Prime Office Lobby, Park Towers, Shahrah-e-Firdousi, Clifton, Karachi, 75600, Pakistan	PKR100.00 Ordinary
Peru	Coats Cadena SA – Peru	Av. Republica de Panama 3461, Piso 9, San Isidro, Lima, Peru	PEN 0.01 Ordinary (99%)
Poland	Coats Polska Spolka z oganiczona odpowiedzialnoscia	91-214 Lodz, ul, Kaczencowa 16, Poland	PLN1,000.00 Ordinary

Group structure continued

Country of Incorporation	Company name	Registered office address	Share class
Portugal	Coats – Comercio de Linhas, Fechos e Acessorios, Para a Industria SA	Praca do Almada, No 10, 4490, Povia do Varzim, Portugal	€1.00 Ordinary Bearer Shares
Portugal	Companhia de Linha Coats & Clark S.A.	Praca do Almada, No 10, 4490, Povia 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	RUB173.55 Ordinary
Singapore	Coats International Pte. Limited	10 Changi Business Park Central 2, #01-02 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
Singapore	Coats Overseas Pte Ltd	10 Changi Business Park Central 2, #01-02 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
Spain	Gotex S.A.	Poligono Industrial Can Roqueta, Calle N'Alzina, 79 Sabadell, Barcelona, Spain	€6.02 Ordinary
Sri Lanka	Coats Thread Exports (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR100.00 Ordinary (99%)
Sri Lanka	Coats Thread Lanka (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR10.00 Ordinary (99%)
Sweden	Coats Industrial Scandinavia AB	Stationsvagen 2, SE-516 31 Dalsjofors, Sweden	SEK1,000.00 Bearer
Switzerland	Coats Stoppel 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

Country of Incorporation	Company name	Registered office address	Share class
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
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
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 Trading (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

Group structure continued

Country of Incorporation	Company name	Registered office address	Share class
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
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	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

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Tootal Group Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary, £1.00 3.5 % Cumulative Preference
United Kingdom	Tootal Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United States	Coats American Inc	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	US\$10.00 COMMON, US\$5.00 5% Cumulative Preference
United States	Coats Garments (USA) Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US\$1.00 Ordinary
United States	Coats Holdings Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US\$1.00 Ordinary
United States	Coats HP Holding Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Wake NC 27615-6417, USA	US\$1.00 Ordinary
United States	Coats HP Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Wake NC 27615-6417, USA	US\$1.00 Ordinary
United States	Coats North America Consolidated Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US\$0.10 Ordinary, US\$1.00 Class B Voting Shares
United States	Coats North America de Republica Dominica Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Raleigh, North Carolina, 27615-6417, 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, 28 Liberty Street, New York, NY 10005, USA	US\$ Common
United States	Patrick Yarn Mill, Inc.,	CT Corporation System, 160 Mine Lake Ct., Suite 200, Raleigh, North Carolina, 27615-6417, 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	Westminster Fibers, Inc.	c/o The Corporation Trust, 1209 Orange Street, Wilmington, Delaware, USA	US\$1.00 Common shares
Uruguay	Coats Cadena S.A. – Uruguay	Rufino Dominguez 1864, Montevideo, Uruguay	UYU0.05 Ordinary
Vietnam	Coats Phong Phu Limited Liability Company	No. 48 Tang Nhon Phu Street, Tang Nhon Phu B Ward, District 9, Ho Chi Minh City, Vietnam	US\$1.00 Ordinary (64%)

Group structure continued

Joint Ventures

Country of Incorporation	Company Name	Registered Office address	Share class
Australia	ACS Nominees Pty Limited	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Ordinary (50%)
China	Guangying Spinning Company Limited	2 Yuan Cun Xi Jie Guangzhou, 510655, China	US\$1.00 Ordinary (50%)
China	Tianjin Jinying Spinning Co Ltd	10m E of intersec. of Jinlai Rd and Mingqing Rd, Liqi Zhuang, Xiqing Qu, 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	2017 US\$m	2018 US\$m	2019 ³ US\$m	2020 US\$m	2021 US\$m
Continuing operations (before exceptional and acquisition related items)¹:					
Revenue²	1,356.1	1,414.7	1,388.7	1,163.3	1,503.8
Cost of sales	(849.7)	(901.9)	(898.1)	(806.6)	(1,025.3)
Gross profit	506.4	512.8	490.6	356.7	478.5
Operating costs ²	(345.8)	(317.9)	(292.6)	(246.1)	(285.4)
Operating profit	160.6	194.9	198.0	110.6	193.1
Share of profits from joint ventures	1.3	0.1	1.1	0.6	1.2
Finance income	2.1	1.7	1.7	0.7	0.4
Finance costs	(25.4)	(26.1)	(29.6)	(25.5)	(22.2)
Profit before taxation	138.6	170.6	171.2	86.4	172.5
Taxation	(44.6)	(53.8)	(50.5)	(35.2)	(53.5)
Profit from continuing operations	94.0	116.8	120.7	51.2	119.0
Adjusted earnings per share (cents)	5.70	6.87	6.97	2.42	6.81
Dividend per share (cents)	1.44	1.66	0.55 ⁴	1.30	2.11
Adjusted free cash flow (\$m)	76.4	96.2	106.8	28.0	112.9
Return on capital employed (%)	35.4%	42.6%	42.3%	22.2%	39.9%

Notes:

1. The results for 2017 have been restated following the disposal of the North America Crafts business.
2. Revenue and operating costs have been restated for 2017 following the Group's adoption of IFRS 15 'Revenue from contracts with customers' on 1 January 2018.
3. The Group adopted IFRS 16 'Leases' from 1 January 2019 using the modified retrospective approach and therefore results for 2017-2018 are not restated.
4. 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/ar2021

Coats Group plc

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