GLOBAL LEADERSHIP

Threads and footwear components

Coats Group plc
Annual Report 2022

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

Big, bold, game-changing ideas are crucial to delivering this. We are accelerating profitable sales growth through our ground-breaking sustainable products and solutions, transforming Coats for the future and creating value for our customers, their industries, our shareholders, our people and the communities in which we operate.

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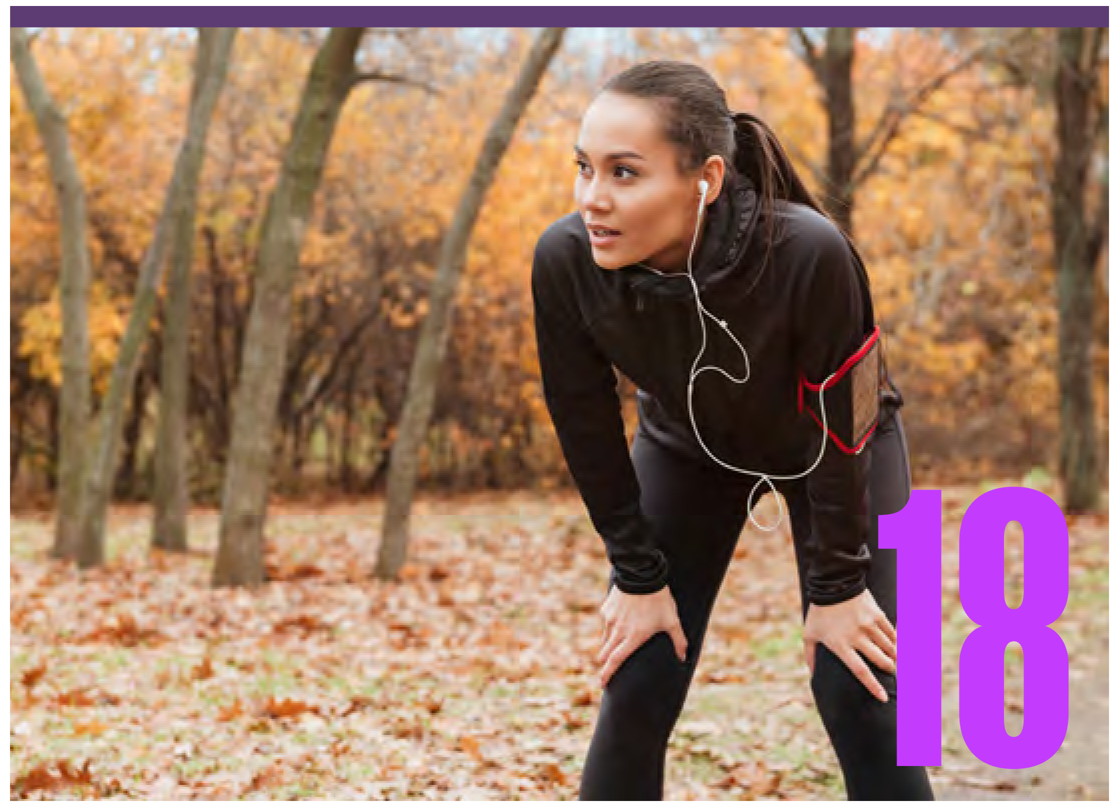
DISCOVER OUR STRATEGY IN ACTION

Accelerating profitable sales growth: Winning with the winners



Transforming the business: Building for the future

Value creation: Creating a global footwear champion

About this report

This report has been produced in landscape format to optimise the reading experience online.

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See our online 'Year in Review' at coats.com/results

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

2022 full year results and highlights

> "We have had a very successful year with adjusted EBIT margins now ahead of pre-Covid levels, despite a year of record inflation."

Rajiv Sharma
Group CEO

10%
ORGANIC REVENUE GROWTH

37%
RECYCLED SALES GROWTH

17
NEW PRODUCTS LAUNCHED

8.2c
ADJUSTED EPS UP 14%

2.43c
TOTAL DIVIDEND UP 15%

1.4x
PRO FORMA BALANCE SHEET LEVERAGE

$235m
ADJUSTED EBIT

22%
ADJUSTED ORGANIC EBIT GROWTH

At a glance and highlights

We are the global market leader in apparel threads, structural components and threads for footwear, and innovative pioneers in performance materials.

We are manufacturers of sustainability-led innovative products, and trusted partner to leading brands across all three segments and multiple industries.

A FTSE250 company and a FTSE4Good Index constituent, Coats takes part in the UN Global Compact and is committed to Science Based sustainability targets for 2030 and beyond.

50+
Countries

17,000
Employees

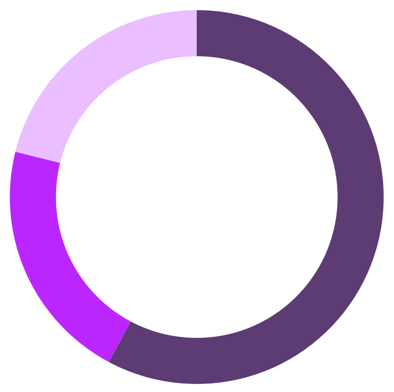
34,000
Customers globally

>250
Years of textiles experience

Revenue by division

- Apparel & Footwear 73%
- Performance materials 27%

Revenue by region



- Asia 58%
- Americas 21%
- EMEA 21%

Highlights

Accelerating profitable sales growth

- Group organic growth of 10%; Apparel & Footwear 9%, Performance Materials 13%
- Thread market share gains up over 100bps to 24%
- Recycled product revenues up 37% to $127m
- 17 new innovative products brought to market
- Adjusted operating margin up 120bps to 14.8%
- Price/mix and self-help offset inflationary pressures of $118m
- Strong free cash flow of $114m, pro forma leverage after acquisitions of 1.4x
- Adjusted earnings per share increased 14% to 8.2c and dividend per share by 15%, full year dividend 2.43c

Transforming the business

- Acquisition of Rhenoflex and Texon creates global market leader in footwear components
- Significant momentum in strategic projects to optimise the portfolio and footprint, and improve the overall cost base efficiency. As a result, we now expect to achieve an added $20m in Operating Profit in 2024, up to $70m
- Divested our Brazil and Argentina business, exited from Russia and direct operations in South Africa. Rationalised plants in Hungary and the USA and sold our units in Mauritius and Madagascar
- Sustainability ambitions upgraded in line with our net zero commitments. Substantially delivered on 2022 goals. New 2030 targets announced
- Positive progress in relation to de-risking of UK pension scheme; £350m buy-in completed. On/off contribution trigger agreed with Pension Trustees

Financial performance

Continuing operations	FY 2022	FY 2021[3]	FY2022 vs FY 2021		
			Reported	Ⓐ CER	Ⓐ Organic
Revenue*	**$1,584m**	$1,447m	9%	16%	10%
Adjusted Ⓐ					
Operating profit*	**$235m**	$198m	19%	27%	22%
EBITDA*	**$284m**	$243m			
Basic earnings per share*	**8.2c**	7.2c			
Free cash flow*	**$114m**	$124m			
Net debt (excl. IFRS 16)	**$394m**	$147m			
Pro forma leverage*[2]	**1.4x**	0.7x			
Reported[1]					
Operating profit	**$181m**	$178m	2%	9%	9%
Basic earnings per share	**4.8c**	5.8c			
Net cash generated by operating activities	**$96m**	$129m			
Final dividend per share	**1.73c**	1.50c			
Total dividend per share	**2.43c**	2.11c			

Ⓐ Alternative Performance Measures – see note 37.

* Indicates our KPI measures. See pages 30-31 for more details and historical performance.

1. Reported metrics refer to values contained in the IFRS column of the primary financial statements in either the current or comparative period.
2. Leverage calculated on a pro forma and frozen GAAP basis and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt and includes a full 12 months of EBITDA for Texon and Rhenoflex.
3. Restated to reflect the results of the Brazil and Argentina business, divested in 2022, as a discontinued operation.

Some of our customers

ATTRACTIVE MARKETS ACROSS THREE DISTINCT DIVISIONS

APPAREL

Coats is the global market leader in supplying premium sewing thread to the apparel industry, and is estimated to be over twice the size of the nearest thread competitor. The global thread market is estimated to be c.$3.4bn and whilst thread alone is 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 industry which is projected to grow at low single digits in the medium term. We also manufacture selected zip and trim products, and our fashion tech business supplies software solutions for speed, productivity and transparency in customers' operations. Whilst economic volatility, inflation and supply chain disruption impacted our industry in 2022, we expect industry growth rates to continue to demonstrate resilience in the medium term. In Apparel 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.

Our new organisational and reporting structure, effective 1 January 2023, is comprised of three divisions; Apparel, Footwear and Performance Materials.

PERFORMANCE MATERIALS

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 and oil & gas infrastructure, automotive and feminine hygiene products. We estimate the total addressable market that we could realistically supply in the near term to be c.$3.0bn, giving us an estimated market share of around 15%. We aim to deliver mid- to high-single digit organic growth in the medium-term in Performance Materials as a whole. Specifically, Composites and Personal Protection affords better growth opportunities where we expect to grow revenues at a higher rate compared to Performance Thread where growth is likely to be in the mid-single digit range.

FOOTWEAR

Coats is the global market leader in supplying highly engineered structural components and performance thread to the footwear industry. We estimate the structural components addressable markets to be $0.6bn in which, through our recent acquisitions of Texon and Rhenoflex, we enjoy a market leading share of over 20% in a fragmented market. The global footwear threads market is c.$0.6bn, where we also have a long-established leading position.

Our acquisitions have opened new markets, particularly in footwear insoles, and in lifestyle and luxury structural components. In aggregate, the global footwear markets we serve are expected to grow 7-8% over the medium term.

These markets are driven by sustainable innovation, reliability and reputation, and we are well positioned to take advantage of future growth in this industry.

Chair's statement

"I am proud of what we have achieved – our innovation, our investment in our talented people, our bold strategic ambitions... everything that will help us to deliver value for all our stakeholders."

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

To support this, we have developed a new set of values that embody Coats' unique culture of collaboration, agility, 'can do' approach, passion and diversity. These are values that the company has long demonstrated, so I am delighted that we have formally framed these.

This provides the basis for our strategy whereby we will **accelerate** profitable sales growth and **transform** the business to improve margins and create sustainable **value** for our shareholders, customers, employees and the communities in which we operate.

2022 saw the world emerge from the challenges of Covid only to be confronted with the conflict between Russia and Ukraine, followed by an exceptional inflationary period. The resilience of our business model, execution of strategy, pricing power, with the support of all the dedicated people at Coats, have underlined our leading position.

In response to the situation between Russia and Ukraine, we took the decision to exit the Russian market. I am proud of the support provided to our colleagues in Ukraine. The safety of our employees and their families remains our top priority.

Our flexibility to change has been evident during these challenging years but as we enter 2023, we do so in a stronger position than ever.

Footwear acquisitions

Coats achieved a significant milestone in our M&A strategy, with the acquisitions of Rhenoflex and Texon. We created a new global market leader in footwear components, complementing our global leadership in threads. The addition of structural components and accessories into this exciting market underlined the Board's drive to grow the business and accelerate profitable sales growth.

I wish to thank our shareholders for the support and confidence they showed in us during the equity raise that funded the acquisition of Rhenoflex.

Footwear will now make up around a quarter of the revenues of the Group and, as such, from 1 January 2023 we will be reporting Apparel, Footwear and Performance Materials as three separate divisions.

Chair's statement cont.

> "A personal highlight was seeing first-hand the work of Asociación Orizaba Propone AC (AOPAC) who support children and adolescents in their cancer treatment from the nearby region of Orizaba."

David Gosnell
Chair

8.2c
Adjusted EPS up 14% from 2021

2.43c
Total dividend up 15% from 2021

Strategic projects

We announced a series of strategic projects in March 2022. The objective was to optimise our portfolio and footprint and to improve the overall cost base efficiency of the Group. Significant momentum was gained over the year and we now expect to deliver $70m of annual cost savings by 2024.

The opening of a new state-of-the-art manufacturing plant in Huamantla, Mexico, will address the labour availability issues we face in the USA and deliver higher margins in Performance Materials. I am excited to see the second new facility coming online in 2023 and the further momentum this will bring.

The plant opening was attended by the Board and executive Team members in October. A personal highlight, and one which I know touched all of the Coats leadership team, was seeing first-hand the work of Asociación Orizaba Propone AC (AOPAC) to support children and adolescents receiving cancer treatment in the nearby region of Orizaba. The pandemic of the last years meant campaigning had to be suspended so employees at Coats' Orizaba plant collected PET caps that were then sold for recycling with Coats matching the proceeds. The courage shown by the young people affected by cancer and the hard work and dedication of AOPAC should serve as an example to us all.

Sustainability and innovation

In 2021, we established a Board-level Sustainability Committee, chaired by me, to enhance the Board visibility and governance over these very important milestones. In December of 2022, the Board, in conjunction with the Committee, approved new 2026 Science Based Targets, linked to senior management Long Term Incentive Plans (LTIP).

Pensions

I am delighted with the significant progress we have made on pensions during the year. We collaborated with the pension trustees, who completed a £350m buy-in of annuity policies to bring us closer to our medium term aim to remove the scheme from the Group's balance sheet. As a result of the improved funding position, we have agreed a mechanism to switch off / switch on the regular cash contributions to the Scheme based on monthly estimates of the latest funding position. This mechanism gives rise to the potential for significant Group free cash flow benefits from lower or eliminated cash contributions.

Board changes

I had great pleasure in welcoming two new additions to the Board, adding further depth to the team.

Steve Murray joined on 1st September as an Independent Non-Executive Director. Steve brings with him more than 30 years of experience in the apparel and footwear industry having most recently been Global Brand President of The North Face and previously CEO of Dr. Martens.

Heather Lawrence joined on 7th November as an Independent Non-Executive Director. Heather has more than 25 years of experience in banking and capital markets as well as holding a number of non-executive directorships. She will Chair the audit and risk committee following the AGM to be held in May.

Capital allocation policy and dividend

Our capital allocation policy remains unchanged and focusses on 4 key pillars (i) reinvesting in organic growth (ii) acquisitions in line with disciplined strategy (iii) supporting pensions and (iv) paying a progressive dividend. We implement these pillars whilst maintaining a strong balance sheet with a target leverage ratio of 1-2x.

The Board is mindful of the importance of returns to shareholders. To underline the strong progress we have made in 2022, we are pleased to propose a final dividend of the year of 1.73 cents per share, bringing the total dividend for the year to 2.43 cents per a share, a 15% increase on the 2021 total dividend.

Subject to approval at the AGM, the total dividend will be paid on 25 May 2023 to ordinary shareholders on the register at 28 April 2023, with an ex-dividend date of 27 April 2023.

Looking ahead

Coats has scale, product and quality differentiation and a growing pipeline of innovative and sustainable products. This will enable revenue growth ahead of market. Looking further ahead, as a result of the transformational work done to date, we remain well-positioned to grow earnings and cash.

I would like to conclude by thanking, on behalf of the Board, our exceptional employees across the world.

CEO's statement

"Coats has delivered a very strong financial and operational performance in 2022 and continues to transform the business with significant momentum on strategic projects and creation of a global footwear champion."

2022 HIGHLIGHTS

10%
Organic revenue growth

$20m
Strategic projects savings in 2022
On track to deliver $70m in 2024

14.8%
Adjusted EBIT margin

37%
Recycled sales growth

$235m
Adjusted EBIT

$114m
Adjusted Free cash flow

CEO's statement cont.

"We continue to accelerate innovation to deliver tailored solutions to meet our customers' design requirements and to transform Coats for the future. I would personally like to thank everyone at Coats, for executing with speed and precision while maintaining our high ethical standards."

Rajiv Sharma
Group CEO

$150m

Pricing and self-help initiatives to more than offset inflation

2022 has been a year of significant macro economic and geo political challenges for the world. High inflation, high volatility and continuing supply chain disruption characterised the macro environment in which Coats had to operate.

Despite this, and because of the talented team at Coats, 2022 has been a hugely successful year. We continued to accelerate innovation to deliver tailored solutions to meet our customers' design requirements and to transform Coats for the future. I would personally like to thank everyone at Coats, for executing with speed and precision while maintaining our high ethical standards.

We entered 2022 prepared and ready to **accelerate** profitable sales growth and **transform** the business to improve margins. Our business model, strategy, tactics, employees and eco system remained vibrant and resilient. Coats was able to create and seize opportunities. By thinking big, being bold and acting fast we stayed ahead of the challenges.

Coats is now the global market leader in footwear components as well as in apparel threads. To drive focus and clarity, we have announced the creation of a new Footwear division that will sit alongside Apparel and Performance Materials. This means that from 2023, Coats will have 3 distinct strategic divisions, each addressing attractive markets.

Accelerate profitable sales growth

For the full year 2022, Coats delivered 10% organic sales growth over 2021 and improved adjusted margins by over 100 bps. Adjusted Free Cash Flow was $114m (2021: $124m) and pro forma leverage ended at 1.4x (2021: 0.7x), well within our stated 1 to 2x range.

The quality of our products and services in conjunction with our operational delivery, allowed us to win incremental customer business. Our disciplined approach to pricing, productivity and strategic projects allowed Coats to more than offset high inflation and demand/supply challenges to grow overall margins.

Coats has a successfully tested playbook to "Win with the winners" and offset inflation through price and productivity. We leverage our extensive global footprint, technology capabilities and teams to deliver world class service to customers. Apparel & Footwear and Performance Materials divisional performance in 2022 is stated below:

Apparel & Footwear: Revenue $1,163m and adjusted margin 17.3%

Performance Materials: Revenue $420m and adjusted margin 8.1%

Transforming the business to improve margins

Footwear acquisitions

With the acquisition of Texon and Rhenoflex, we have created a global leader in footwear components that complements our existing leading position in footwear threads. This expands the addressable market by 3 times to $1.8 billion. Both Texon and Rhenoflex offer complementary products that allow Coats to further expand in the fast-growing athleisure and sports footwear market. It also gives us a stronger presence with European luxury footwear and accessories brands. Sustainability and innovation are at the heart of Texon and Rhenoflex, aligning with Coats' strategy. Over the medium term, we forecast 8% sales CAGR and over 20% operating margins for the Footwear division.

WELCOME TEXON AND RHENOFLEX

These back-to-back acquisitions have helped Coats become a global leader in premium structural components and materials for the footwear and lifestyle industries.

In FY22 (full year effect), this has meant an additional $87m revenue, $9.2m EBIT and post-acquisition pro forma leverage of 1.4x.

Read more about these acquisitions on page 22

CEO's statement cont.

Strategic projects

In March 2022 we announced that we expected incremental Operating Profit of $50m by 2024 from strategic projects. These projects include improving margins and service in the US Performance Materials business and optimising G&A cost base across the Group by moving activities closer to the customers in market. These projects were well executed and delivered $20m savings in 2022, ahead of our initial projections of $5–10m. We are now on course to deliver $70m of savings by 2024.

During the year, Coats divested its Brazil and Argentina business, exited Russia and direct operations in South Africa. We have announced the closure of operations in Ujpest, Hungary and Hendersonville, USA and sold our units in Mauritius and Madagascar. A new factory with state-of-the-art proprietary equipment in Huamantla, Mexico was inaugurated in October. Our existing factory in Orizaba, Mexico has been upgraded with new manufacturing technology. These investments and expanded capability in Mexico will address the issue of labour shortages in the US that previously restricted operations and growth. We have also increased capacity in our performance material factory in Spain and apparel factory in Romania. Overall, these projects will play a big part in transforming Coats in the Americas and Europe.

Sustainability

Sustainability is at the heart of our company purpose and strategy. For Coats, this means continually looking for ways to reduce consumption of materials, energy and water, to holistically take care of our employees and the communities in which we operate; and to reduce waste and emissions across the Group.

We set ourselves ambitious sustainability goals from 2019 to 2022, and I am thrilled to inform you that we have substantially delivered on these goals. You can read more about them in our **sustainability report**.

We committed to reduce emissions by 46% in this decade. To deliver on this ambition we have launched a company-wide transition from oil-based materials to recycled and renewable materials. We are pushing forward with transitioning energy purchased from fossil fuel based power generation to renewable energy.

Sustainability is not only the right thing to do, but also a source of clear competitive advantage. After the successful delivery of sustainability projects and programs from 2019-2022, I am delighted to inform you that we have set out new Sustainability Targets for the period 2023-2026 that include energy, materials, water, waste and people.

For more details, please see the sustainability section and cases studies in this report, and our Sustainability Report which is now in its 5th year.

Innovation

Innovation sits alongside sustainability in the centre of our strategy. We have three large Innovation Hubs in three continents that drive our new product pipeline. The Innovation Hubs allow Coats to collaborate with customers, suppliers, start-ups and academic teams to develop next generation products.

Our Innovation Hub in Shenzhen, China has been repurposed to focus on its new mission to accelerate the transition from oil-based to recycled and renewable materials. We announced a $10m fund to advance green technologies and materials, including bio-materials relevant to our industry supply chain.

In 2022, we launched 17 new products across all our divisions (FY 2021 21 new products) generating $34m incremental revenues (FY 2021: $37m).

This report highlights just some of these exciting new products. I would draw your attention to the case studies on ProWeave, Rhenoprint 2.0, our Eco-range and developments in composites.

A year of strong financial performance

Accelerating profitable sales growth and transforming the business delivers value to our shareholders. Adjusted earnings per share has increased by 14% and, by carefully managing financial pro forma leverage (2022 1.4x; 2021 0.7x) and generating healthy adjusted free cash flow (2022: $114m; 2021: $124m), we end the year in a strong position to propose the 1.73 cents per share final dividend.

This increase of 15% on 2022 total dividend, alongside the proposed interim dividend of 0.70 cents per share brings the full year 2022 to 2.43 cents per share (2021: 2.11 cents per share). This is a confirmation of our belief in the strategy that we are executing, the robust health of the company, and the outlook for the Group.

Looking to 2023

Following a year of excellent progress in transforming the business, market share gains and increased profitability, we expect to deliver another year of strong strategic and operational progress. This is in a macroeconomic environment where there is a softening in demand and some destocking by customers, primarily in Apparel markets and to a lesser extent in Footwear markets. We continue to proactively respond to macroeconomic uncertainty and inflationary pressures using our well-defined and tested playbook that focuses on cash, costs, self-help and tactical pricing actions.

As a result, we continue to anticipate that full year 2023 performance will be in line with the Board's expectations, with a weighting to the second half. This performance will be underpinned by the contribution from acquisitions, in addition to associated synergies and efficiencies from strategic projects.

WE HAVE CAPTURED THE VALUES THAT REFLECT OUR UNIQUE CULTURE

WE ARE COLLABORATIVE

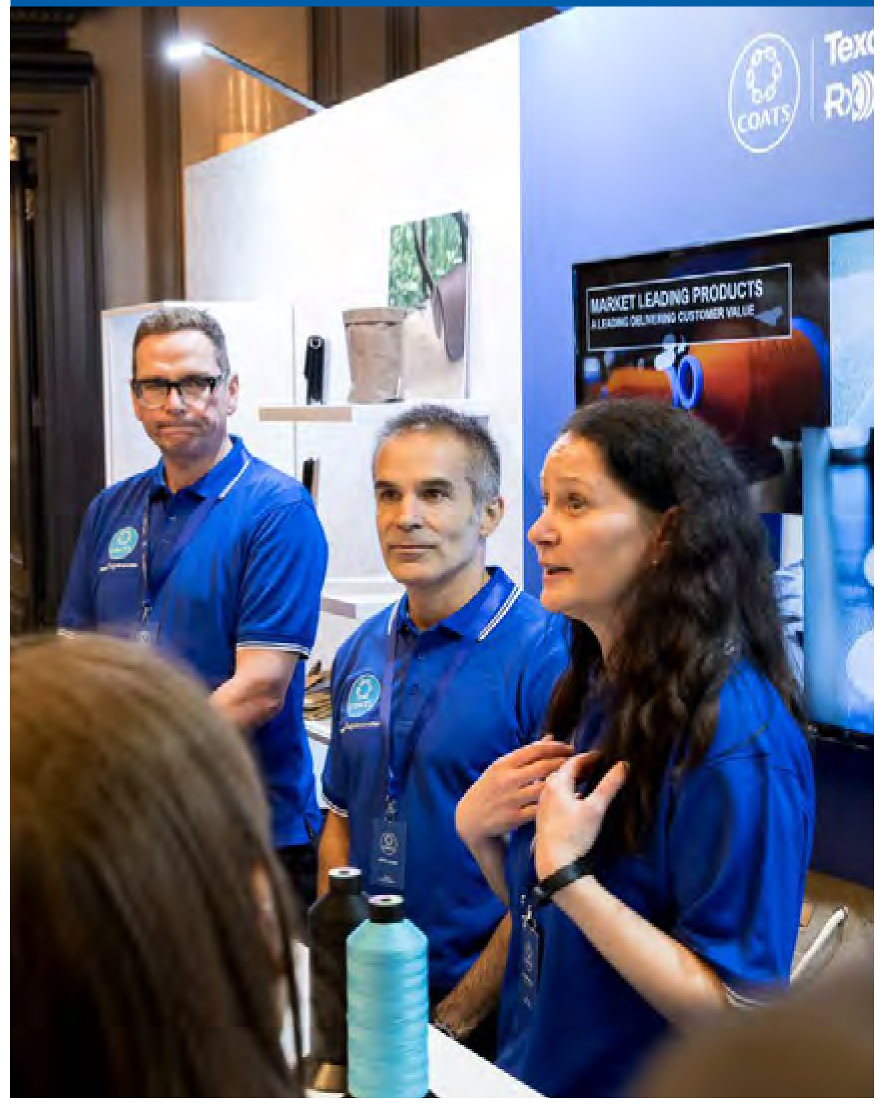
Coats connects talent, textiles and technology to deliver great service and quality to our customers. We collaborate across all geographies with partners and customers to create the materials and products of tomorrow. We believe the success of our colleagues is the success of Coats.

WE ARE AGILE

With a proud heritage dating back more than 250 years and a spirit of evolution that drives us to constantly stay ahead of the game, we have always adapted to change, thriving and becoming stronger as a result.

WE HAVE A 'CAN DO' ATTITUDE

We operate in a fast paced, ever changing world. We are confident, motivated and energetic dealing with new tasks and challenges, committed to serving our customers, trusted to deliver.



WE ARE PASSIONATE

We are enthusiastic about our work, our colleagues, our company and especially our customers. Passion is seen in everything we do.

WE ARE DIVERSE

We operate across 50 countries, with a workforce of over 17,000. We speak over 65 languages and come from hundreds of nationalities, cultures and ethnicities. We come together as one.

Strategy

Accelerate profitable sales growth by leveraging innovation, sustainability, digital technologies and our global scale to create world class products and services, delivering value to our stakeholders.

ACCELERATE PROFITABLE SALES GROWTH

Apparel

Increase our market share by delivering sustainable, innovative and value-added product and service solutions to our global customer base. Continue to strengthen our global footprint to support supply chain regionalisation.

Footwear

Focus on sustainability-led innovations to improve product offerings to key brands and manufacturers, and leverage our newly created scale to drive efficiencies, share gains, and commercial synergies.

Performance Materials

Lead with innovative and sustainable developments in highly engineered products, creating solutions for attractive and growing markets.

Apparel progress in 2022

- Continued to grow Recycled sales, to $127m in 2022 ($93m in 2021)
- Consecutive year of >100bp market share growth
- Offset inflationary pressures through productivity and pricing

Footwear progress in 2022

- Significantly increased our Total Addressable Market as a result of our acquisitions
- Upside potential from innovations, such as ProWeave
- Launched our recycled nylon thread range specifically for use in footwear

Performance Materials progress in 2022

- Opened a new state-of-the-art factory in Mexico with proprietary bonding equipment, refurbished machinery and efficient factory layout helping to maximise productivity
- Relocation of our Spanish facility to a larger, purpose-built site has expanded capacity for our composites range in telecom and oil & gas sectors
- Launching innovative personal protection yarn ranges addressing specific customer needs e.g. protection from molten metal splash for workers in foundries and smelters

TRANSFORM THE BUSINESS

Strategic projects

In March, Coats Group announced 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. The resulting benefits are anticipated to deliver cost savings of $70m by 2024.

Progress in 2022

- Substantial savings of $20m versus original expectations of $5m to $10m
- New factory commissioned in Huamantla, Mexico to enable further growth in the Americas
- Divested our Brazil and Argentina business, exited from Russia and direct operations in South Africa. Rationalised plants in Hungary and the USA and sold our units in Mauritius and Madagascar
- Streamlined our Corporate functions and moved them closer to the customer to reduce cost and improve delivery

CREATE VALUE

Disciplined use of capital to fund inorganic opportunities to build scale and acquire new capabilities, technology and talent.

Progress in 2022

- Two strategic acquisitions: Texon, funded out of a new dedicated acquisition debt facility; and Rhenoflex funded via an over-subscribed equity raise
- In January 2023, successful $250m refinancing of Texon Acquisition Facility through a USPP issuance at competitive rates, de-risking debt maturities
- Positive progress in relation to de-risking of UK pension scheme; £350m buy-in completed. On/off trigger agreed with Pension Trustees

Strategy cont.

OUR STRATEGIC ENABLERS

Our purpose provides the basis for our strategy whereby we will accelerate profitable sales growth and transform the business to improve margins and create sustainable value for our shareholders, customers, employees and the communities in which we operate. Our strategic goals are underpinned by the following enablers:

SUSTAINABILITY

Sustainability is a core tenet of our wider business strategy and an imperative to our mid- and long-term business success. Playing our part in mitigating climate change is core to our strategy, with commitments made to reduce carbon emissions in line with Science Based Targets and underpinned by energy transition to renewables and substitution of materials to non virgin-oil based resources.

CASE STUDY
100% RECYCLED ECOVERDE

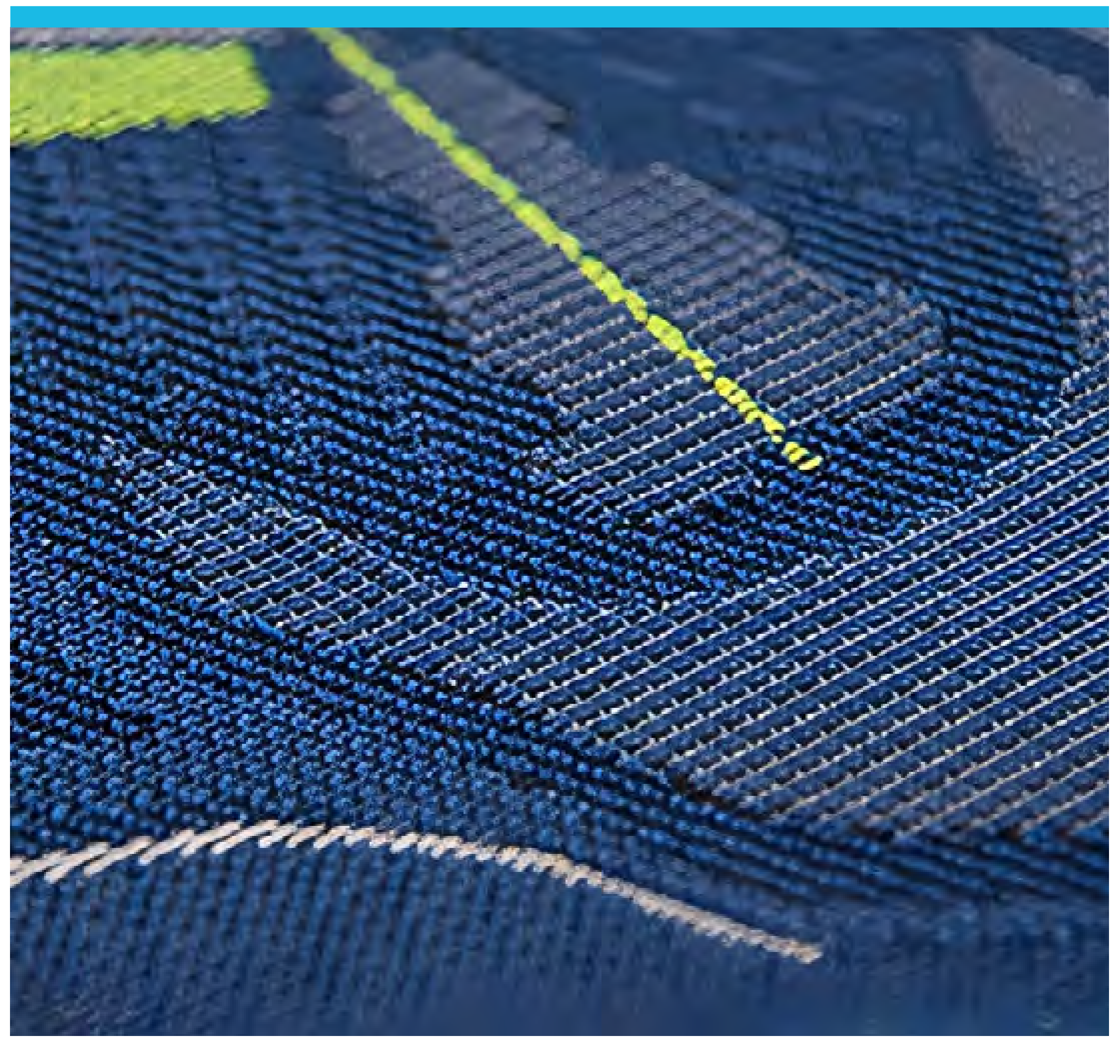
Coats EcoVerde is an innovative 100% recycled alternative to virgin polyester that provides a responsible solution to help reduce the global plastic pollution problem. Since 2018, we have recycled 799m PET bottles to make EcoVerde.

Our target is to transition all of our premium polyester products to recycled polyester by 2024.

INNOVATION

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 design requirements.



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 2022, we enhanced our offering with the acquisition of Rhenoflex and the cutting edge digital technology of Rhenoprint 2.0.

CASE STUDY
PROWEAVE: FABRICS REIMAGINED

ProWeave transforms the way performance fabrics are made and how they look, feel and function. Creating different elasticity, tenacity and abrasion zones within the same weave, ProWeave can help the world's biggest brands bring new creative concepts to life.

ProWeave has already been used by global sports brand Umbro to create its new Velocita Alchemist football boots. The use of Texon's patented ProWeave technology by Umbro is a first in the sports sector and gives Velocita Alchemist boots new levels of elasticity and stability with recycled polyester yarns. In sports footwear, ProWeave delivers the ultimate adaptive fit acting like a second skin for sure-footed stability.

> "We are very excited about the coming opportunities with ProWeave. It provides a solution that takes us to the partnership level with our brand customers and allows us to play a greater role in the structure, performance and aesthetics of the shoe. As part of the Coats Footwear Innovation products, we know we will accelerate and transform not only our business, but our brands and the industry."

Bryan Whitfield
Sales Director

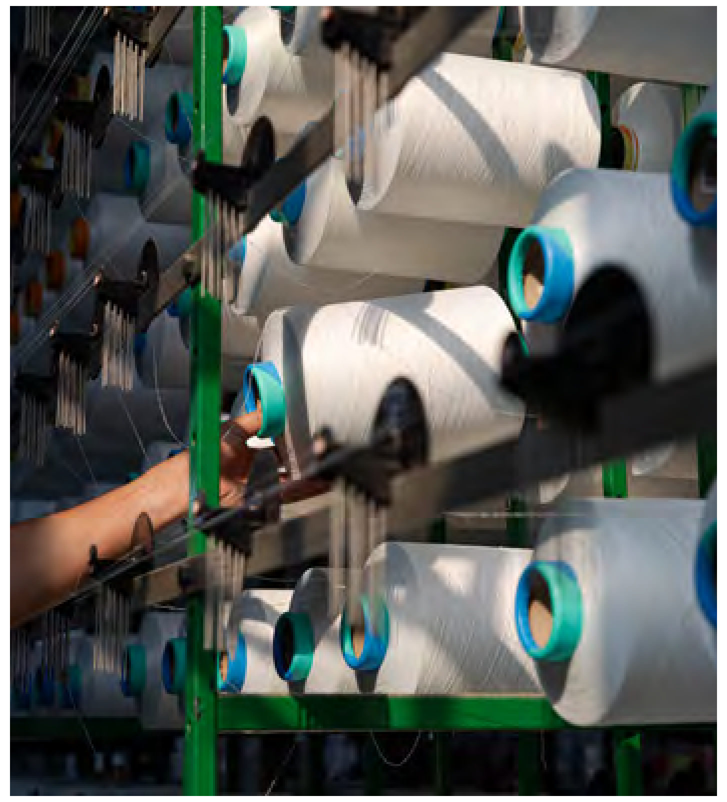
HOW WE CREATE VALUE FOR OUR CUSTOMERS

Our purpose of connecting talent, textiles and technology to make a better and more sustainable world drives how we operate and create long-term value.

SPEED

Speed to market is critical. Owing to our agile supply chain and customer-centric operational footprint, we provide customers and brands with the flexibility they need to stay relevant in a fast moving world.

OUR LEADING POSITION AND EXCELLENCE IN 'SPIQRS' CREATES VALUE FOR OUR CUSTOMERS AND A COMPETITIVE ADVANTAGE FOR COATS



PRODUCTIVITY

We employ the latest in Lean Six Sigma and other methodologies to ensure a continuous cycle of improvement and delivery of operational excellence. This enables us to reduce costs which help to offset inflation and maintain excellent customer service.

INNOVATION

We have a longstanding culture of innovation. Our Innovation Hubs are spaces to collaborate with customers, in which we develop new solutions to solve their problems and improve their finished products. Our innovation capabilities have been further enhanced with the acquisitions of the talent in Texon and Rhenoflex.

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 globally consistent, stringent safety standards.

RELIABILITY

Our track record for reliability and excellent technical customer service allows us to partner with leading global retailers, brands and manufacturers.

SUSTAINABILITY

A key element of our purpose is to create a more sustainable world. It is not just what we produce, but how we produce it. Coats has been a leader in setting sustainability strategy within the industry since we officially launched 'Pioneering a Sustainable Future' in 2019. We have advanced our ambitions, acknowledging the impact that industry has on the environment, and our part in taking responsibility for this. We have set very ambitious sustainability targets across energy, materials, water, waste and people to complement our market differentiating EcoVerde range. See our **TCFD Report** for details. We gain competitive advantage by helping customers to improve their own supply chain sustainability credentials and our two acquisitions this year, Texon and Rhenoflex, further enhance our sustainability capabilities and ambitions.

Business model cont.

HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

EMPLOYEES

We are a proud employer of a 17,000 strong highly engaged, committed and diverse workforce. Whilst driving a high-performance, solution-focused culture, we are committed to the health, safety, rights and well-being of our employees. We champion diversity and inclusion across the Group. This is reflected in our GPTW© certification.

17,000 EMPLOYEES ACROSS THE GLOBE

CUSTOMERS

We put our customers at the centre of everything we do and, as their expectations evolve, we continually drive towards responsibly sourced, sustainable products.

34,000 GLOBAL CUSTOMERS

SUPPLIERS

We look for the right balance of global, national and local capabilities to maintain supply chain agility.

$1BN DOLLARS PAID TO SUPPLIERS

INVESTORS

We are committed to delivering superior returns and long term, sustainable value for our investors.

2.43c TOTAL DIVIDEND FOR 2022

COMMUNITIES

We actively engage with our local communities, providing educational support to children, food donations, and DE&I events, along with thread donations and tree planting initiatives. This was highlighted in our Save the Children donation presented by the Board in Mexico during October.

WE ARE IMMENSELY PROUD OF THE 11 COATS EMPLOYEE VOLUNTEERS WHO WENT TO THE EARTHQUAKE EPICENTRE IN SOUTH-EASTERN TURKEY AS PART OF OUR EMERGENCY RESPONSE RESCUE TEAM

ENVIRONMENT

Sustainability is critical in everything we do, and for our customers. We have substantially delivered against our ambitious sustainability targets in 2022 and have set new 2026 targets as we progress towards our 2050 net zero ambitions.

7 BOLD NEW SUSTAINABILITY TARGETS

People and culture

> We believe in putting people first – equipping them with the skills to adapt, grow and ultimately thrive in the workplace of the future."

Farnaz Ranjbar
Chief Human Resources Officer

POWERED BY OUR PEOPLE:

People are at the heart of our business. In 2022, 14,000 (86%) of our employees told us about the company culture at Coats through a Great Place to Work (GPTW©) certification. We were pleased to see that our coverage exceeded the target of 80% by an outstanding +6%. GPTW© is the most reputable global authority on workplace culture who enable us to benchmark our employee engagement. The GPTW© assessment framework helps our employees give feedback on the levels of respect, fairness, and pride they associate with working for Coats. And the results were clear. Our employees told us that they feel empowered and safe and value the honest, inclusive, innovative and collaborative environments we create across the globe. In 2022 we developed a new set of values that embody Coats' unique culture of collaboration, agility, 'can do' approach, passion and diversity. You can read more about these values on page 11.

We have been recognising good work for some time but the GPTW© feedback showed us we can do even better. We adopted a modern new global approach to recognition called "Applause" to ensure that whenever any of our colleagues does a good job, we can appreciate and celebrate them. All the countries we operate in, have the same standards, the same ways of giving and receiving Applause, and the same awards. Everyone has an equal chance to be celebrated for their work. Our focus is on employee experience and the moments that matter. We are passionate about creating a dynamic, inspiring and purposeful place to work. With over 17,000 employees across the world, we offer rewarding careers within a global business, boasting a history of more than 250 years.

People and culture cont.

> I am delighted that we have launched these new initiatives to further engage and motivate our workforce, enabling a great place to work."

Farnaz Ranjbar
Chief Human Resources Officer

THE FUTURE OF WORK – LOOKING AFTER OUR PEOPLE

There is no question that Covid has led to different ways of working, with employees more remote from organisations than ever before. Hybrid work environments continued to replace the more traditional workplaces, requiring a reshape of the workplace landscape and acceleration of technology into all types

of roles and industries. We saw the potential to do things differently, reshaping how we work to build a better business and a better world for our people.

Coats' "Future of Work" policies provide two Global Frameworks for the Future of Work: Remote Working & Hybrid working. A Future Of Work Leadership Pack provides tips, tricks and best practice examples to help Coats leaders at any level to continue being effective, keeping engagement high and driving high performance across teams in this new era of work.

At Coats we embrace Diversity, Equity and Inclusion. Our "Coats for All" program puts our people principles policy released in 2021 into action (**see more online**) and ensures equality of treatment during recruitment, while at work and for development for all employees around the world regardless of gender, age, disability, race, religion or belief. Our "Coats for Her" program is a visible drive for equal gender opportunities. The "Coats for Her" program consists of a Recruitment Campaign and updated recruitment policy and hiring guides which seek to ensure full female candidate representation at all stages of the recruitment process, while increasing the visibility and profile of Women across the business through spotlight stories on our Coats Link employee communication platform. Our Women in Leadership Fast-Track Programme focuses on developing female employees to ensure equal opportunity on shortlists for new job vacancies across our business. Biannual Diversity, Equity and Inclusion calls will continue in 2023. Our Return-to-Work Programme is specifically targeted at supporting the return-to-work process for both maternity and paternity leavers, with return-to-work guidelines established and shared with expectant mothers, HR teams and managers.

What deserves some Applause? In short, doing things the right way at work. What's the right way? A way that shows one or more of the five Coats Principles – Passion, Agility, Inclusion, Can-do and Collaboration.

Applause consists of 8 categories ensuring that we can engage and recognise all levels of employees. The categories are as follows;

Long Service Awards: Celebrating employees working with us for 5, 10, 25, 30, 35 and 40 years.

Employee of the Year, Quarter and Functional: Recognizes great contributions through the year.

Chairman Awards: Celebrating our leaders in three categories: Profitable sales growth; Increased productivity; Value delivery.

CEO Awards: To celebrate the work done by the whole workforce in seven categories.

Innovation Awards: Global awards for great ideas for new product development.

Safety Heroes: Awarded during Journey to Zero week, to recognize employees who make proactive efforts in health and safety.

In the next phase of our journey, we will continue to utilise Great Place to Work as the main barometer to measure levels of employee engagement and trust. We are committed to further increasing our current percentage of employees covered with certification to 88% in 2026 and aspire to achieve 90% by 2030.

Case Study
Accelerating profitable sales growth

WINNING WITH THE WINNERS

> "We are immensely proud of what we have achieved with this brand. It has been a truly collaborative relationship and one which will continue to grow from strength to strength."
>
> **Adrian Elliott**
> President, Apparel and Footwear

Case Study
Accelerating profitable sales growth

SUCCESS THROUGH COLLABORATION

A trusted partnership driven by Technical Excellence.

We have been working closely with a global leader in the premium activewear apparel and footwear for the last decade, when we helped to engineer seams using the right performance threads and sizes to accommodate their base technical fabrics.

As the athleisure trend started to gain momentum, new technical challenges arose as consumers began to wear their garments for more than just athletic activities. Now, they were wearing them for working, going out on the town and relaxing at home.

Not only was strength, elongation and softness important, it was crucial that these garments were designed to withstand non-traditional uses such as sitting in an office chair, leaning against a concrete wall and rubbing from bags and backpacks.

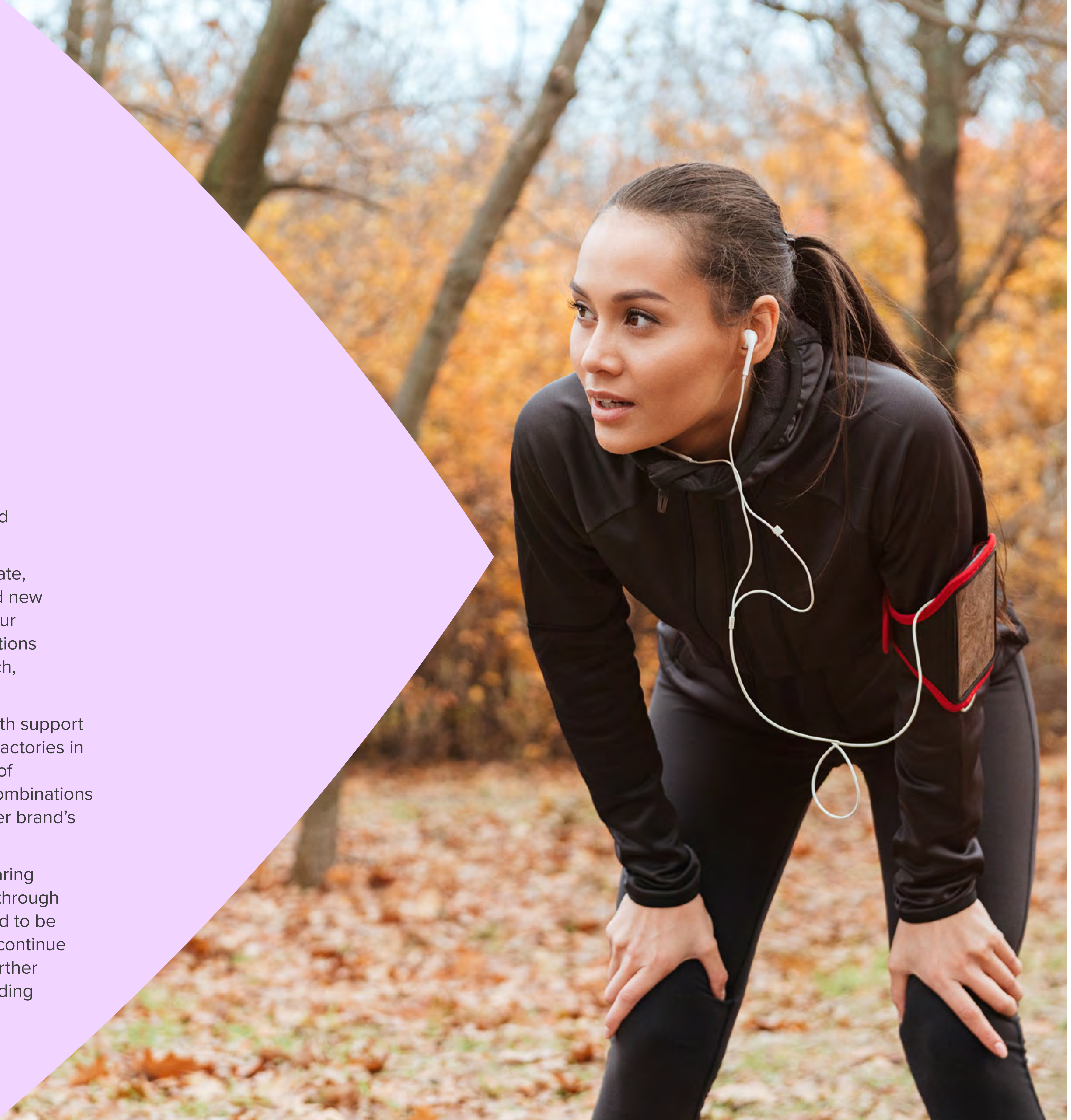
Working in partnership with innovation, design, development and quality teams, we helped engineer the right sewing thread combinations.

For each fabric we trialled and developed individual thread combinations.

As our partner brand continued to innovate, new challenges arose as they introduced new lighter weight and high stretch fabrics. Our goal was always to offer thread combinations that provided the optimal strength, stretch, softness and abrasion resistance.

Garment wear trials were undertaken, with support from Coats Technical Services teams at factories in Asia and Americas. After several weeks of successful testing the optimum thread combinations were finalised and written into our partner brand's quality manuals.

Through this journey of best practice sharing and collaboration, Coats has supported through technical excellence. Today, we are proud to be their Trusted Advisor for all threads. We continue to strengthen our partnership through further seaming innovation and we are now building out a sustainability roadmap to help the transition to more sustainable threads.



Case Study
Transforming the business

With our new state-of-the-art facilities in Huamantla and Orizaba, we now have a more productive, profitable and sustainable home in Mexico.

BUILDING FOR THE FUTURE

Case Study
Transforming the business

MEXICO'S ALL-NEW FACILITIES

In 2022, Coats launched a transformational, strategic project. We added to our manufacturing operations in Mexico, migrating production from the US.

Our aim is to deliver profitable growth and better customer experience through streamlined, state-of-the-art, sustainable facilities in Huamantla and Orizaba.

The Huamantla site has the latest compressed air system that will, over time, result in measurable energy savings. By up-cycling equipment relocated from US plants, we have reduced waste for a more sustainable approach.

New proprietary technology delivers a reduction in the number of manufacturing process steps and increases the level of flexibility to meet the changing needs of the customer. To date the project has seen success in the delivery of increased output for previously constrained supply chains in key growth segments.

The new facility provided us with the opportunity to successfully migrate from legacy technologies in some of our processes to more streamlined, simplified manufacturing routes that deliver equal or improved quality to our customers.

The collective cross-functional talent in Coats made it possible to deliver new and improved technologies that in turn enable us to provide our customers with superior service with ever increasing levels of flexibility and agility. The development of the new employee-friendly and digitally controlled bonding process, underpinned by the proprietary infra-red bonding equipment, is a standout. By innovatively up-cycling some of the equipment from the US plants, we reduced the capital intensity of the project while minimising scrap waste.

Case Study
Creating value

CREATING A GLOBAL FOOTWEAR CHAMPION

Acquiring Texon and Rhenoflex has given Coats an additional 23% market share in premium athleisure footwear structural components and thread components, growing revenue by $230m.

Case Study
Creating value

WELCOME TEXON & RHENOFLEX

This year, Coats announced back-to-back acquisitions of Texon and Rhenoflex, creating a global leader in premium structural components and materials for the footwear and lifestyle industries.

The acquisition of Texon, a leader in structural components and a critical supplier to key athleisure footwear brands represented an on-strategy move, helping Coats to Accelerating profitable sales growth.

Rhenoflex is a leading player in innovative, sustainable footwear components. Its key strengths are its deep customer relationships, enhanced sustainability solutions and growing share in the luxury and lifestyle reinforcements segment.

In welcoming both businesses into the Coats family, we have a market-leading offering in: structural footwear components; footwear uppers and insoles; reinforcement products serving the lifestyle accessories and luxury handbags markets; and sustainable recycled leather alternatives.

Their combined efforts in innovation and sustainability (including ‘Rhenoprint’, a digital zero-waste process for structural components) are market leading.

Top talent, exciting profitability

Both acquisitions came with talented management teams, who now make up the majority of the combined Footwear leadership team. Texon and Rhenoflex achieved their combined business case EBIT for FY22.

The result of these acquisitions (in FY22, full year effect) is an additional $87m revenue, $9m EBIT, and post-acquisition pro forma leverage of 1.4x (Texon being fully debt-funded, Rhenoflex funded through equity).

“I truly believe that Coats shares our values and vision to bring the best in sustainable, innovative solutions to our customers.”

Frank Böttcher
MD Structural Components

23%

Combined global share of premium athleisure footwear structural components

8%

Medium term sales growth ambition

Sustainability

DELIVERING TODAY TO PIONEER A SUSTAINABLE FUTURE

We are delivering forward-thinking solutions.

Our commitments are to:

– achieve net zero emissions by 2050
– make sustained progress on social impact
– continue developing and adopting market-leading eco materials
– and we aspire to lead the industry transition to a circular economy

These targets complement our sustainability-led innovation strategy.

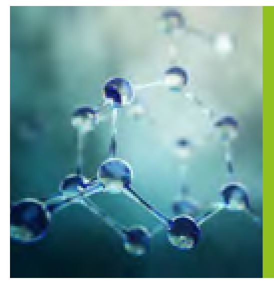
Our Sustainability strategy evolves to remain relevant and challenging. In 2022, having largely delivered on our first set of milestone KPIs as detailed in page 31 of this annual report, we upgraded our KPIs and refreshed targets to extend out to 2026. In committing to Science-Based Targets by end 2030, we recognise the primary levers underpinning delivery are a transition to renewable energy and non-virgin oil-based materials and these sit respectively under our materials and energy pillars. Our water pillar recognises that as a scarce natural resource, we need to limit the impact of our fresh water extraction and our waste pillar considers both the material and effluent waste associated with our supply chain processes. Delivery of our sustainability strategy is driven by the talent that we engage across the business. To reflect this, we have added further depth to our sustainability pillars to emphasise the importance of people; Coats people, their families, and the communities that they work in.

Five pillars

Our Sustainability strategy is supported by the pillars of energy, materials, water, waste and people. These are linked to eight UN Sustainable Development Goals and include approved Science-based targets to reduce scope 1 and 2 emissions by over 46% and scope 3 emissions by 33% by 2030.

ENERGY

– 22% reduction in Scope 1 & 2 Emissions



MATERIALS

– 60% transition to recycled or bio materials

WATER

– 33% water recycling

WASTE

– 0% waste materials to landfill
– 100% ZDHC Compliance (Zero Discharge of Hazardous Chemicals)

PEOPLE

– 88% GPTW© coverage (Great Place to Work)
– 30% women in leadership roles

2026 OUR NEXT CHAPTER SHORT-TERM TARGET

22% reduction in scope 1&2 emissions

60% transition to recycled or bio materials

33% increase in water recycling rate by 2026 from 2022 baseline

0% waste to landfill

100% ZDHC compliance

88% GPTW© coverage

30% Women in leadership roles

2030 OUR GOALS FOR 2030 ARE CLEAR AND AMBITIOUS

APPROVED SCIENCE BASED TARGETS WITH 2019 BASELINE THAT COMMIT US TO

46.2% reduction in Scopes 1 & 2 emissions

100% renewable electricity

33% reduction in Scope 3 emissions

FURTHER TRANSFORMATIONAL TARGETS

Zero products from virgin oil-based materials

70% of total energy from renewable sources

Circular product and packaging solutions

Increased positive social impact

2050 LONG-TERM TARGET

Net-Zero emissions in our value chain by 2050

Sustainability spotlight

SPOTLIGHT ON SUSTAINABILITY

Climate change continues to be seen with increasing frequency round the world, with science confirming this is directly attributable to year-on-year increases in global greenhouse gas emissions. Increased frequency extreme weather events are wreaking havoc round the world. In 2022, to name a few, we witnessed catastrophic flooding in Pakistan, further wildfires across California and drought being declared across many parts of Europe. The only hope for preventing further future devastation is through action being taken to significantly reduce emissions, and transition to a net-zero future.

Coats has committed to achieving interim Science Based Targets, with delivery of absolute scope 1 and 2 greenhouse gas (GHG) emissions reduction of 46.2% by 2030 against a 2019 baseline, and we further commit to absolute scope 3 emissions reduction of 33% within the same timeframe.

By 2050, we aspire to become a net-zero emitter of carbon and have submitted our application to the Science Based Targets Initiative and are awaiting their approval of this commitment.

We have a clear roadmap for delivery of these targets, with achievement of scope 1 and 2 emissions being delivered through further energy intensity improvements in our operations, coupled with a transition of our energy consumption from a carbon intense fossil fuel base to a carbon free renewable base. Our priority objective is to use our electricity demand to promote the creation of new renewable energy assets. We have already made good progress through collaboration with renewables suppliers in many geographic locations resulting in installation of new roof-top solar arrays as well as contracting to off-site wind-farm energy supply through Power Purchase Agreements.

Our next stage, 2023-2026, priority energy target will be directly related to scope 1 and 2 emissions reduction across all of our operations.

For scope 3, delivery of our target reductions by 2030 is heavily dependent on transitioning our products from virgin oil-based raw materials to recycled or bio-based materials. Our Innovation Spotlight section in this report outlines further how we are responding in this area in Apparel with a number of advances made in moves to a more sustainable product offering.

At Coats, we fully recognise our responsibility to use water as efficiently as possible to ensure that our water extraction activities create no negative impact on the local communities and biodiversity in the areas in which we operate. We are committed to minimising fresh water abstraction, and are reducing water consumption especially in areas of high water stress. Through our Cleaner and Lighter programme, significant action has been taken to reduce water intensity in our dyeing processes and delivered through process optimisation, reduction in dyeing liquor ratios and optimised machine cleaning scheduling. We take great pride in having reduced our global 2022 water intensity by 38% from a 2018 baseline, and from 2023 have set a target to increase our rate of water recycling by 33% by 2026, based on our 2022 baseline.

Sustainable Development Goals

Details on the relationship between our 5 Sustainability Pillars and the Sustainable Development Goals (SDGs) are shown below;

Sustainability pillar	Related SDGs
ENERGY	7 Affordable and clean energy; 13 Climate action
MATERIALS	12 Responsible consumption and production; 13 Climate action
WATER	6 Clean water and sanitation
WASTE	6 Clean water and sanitation; 13 Climate action
PEOPLE	1 No poverty; 3 Good health and well-being; 5 Gender equality; 8 Decent work and economic growth

For full details of our work on delivery of SDGs, see our **Sustainability Report**.

WE ARE BOLD INNOVATORS, CREATING HIGH QUALITY, DISRUPTIVE PRODUCTS FOR A BETTER AND MORE SUSTAINABLE WORLD

Key trends

These include recycled and natural materials, circularity, 5G proliferation, lightweighting, multi-hazard protection and more. We are addressing these key trends to create products that deliver exceptional performance and add value to our customers across Apparel, Footwear and Performance Materials.

Innovation Hubs

Our unique position in the supply chain means we can work in collaborative partnerships to address some of the biggest challenges the world faces. We have three key Innovation Hubs in the USA, China and Turkey, supported by Innovation Spokes in Spain, Germany, and India.

We are proud to provide the breeding ground for current and future generations of innovative ideas that will create sustainable and highly engineered solutions to help protect the planet, people, energy and data.

Value delivery

We are working in partnerships with customers and suppliers to create products that are designed to address the key challenges and trends of today, giving Coats a distinct competitive advantage.

PROGRESS IN 2022

RHENOPRINT 2.0

Our Rhenoprint™ products are changing the way product designers look at reinforcement materials for footwear.

The unique Rhenoprint™ process enables us to respond to customer-specific requirements and manufacture tailor-made products. Regardless of shape, thickness or degree of hardness, virtually any parameter can be varied individually. Unlike the conventional process, customers are not provided with sheet stock which then has to be punched out and trimmed. With the Rhenoprint™ process, the reinforcing materials are custom-made in our production facility and delivered ready for use. In practice, this works quite simply: The customer provides their individual cap shape and specification values, and Rhenoflex produces, able to realise almost any shape.

ECO-RANGE

We are committed to developing new products from bio-based and man-made cellulosic materials, whilst ensuring the right level of tenacity required to deliver high quality, sustainable products suitable for a range of applications. In line with our most recent commitments, by 2030 all products will be made independently of new oil-extraction material.

FIBRE OPTIC CABLES COMPOSITES

To meet the ever-increasing demand for data bandwidth that requires fibre optic cables with high fibre density, we launched Gotex StremX, a patent protected composite strength member that enables the production of lighter-thinner cables that are more cost-effective. Substitution of fibreglass strength members with StremX UHM resulted in a 25% diameter reduction while substituting aramid strength members with StremX HY resulted in a 35% cost reduction for the fibre optic cable manufacturers.

SPORTS GOODS COMPOSITES

Footwear brands and athletes desire lightweight materials that provide better support, stability and performance to increase their competitive edge. Our Lattice Lite Eco range of products uses the combinations of reinforcement fibres and matrix fibres in an optimised laying process to create sustainable composite plates with intelligent component performance whilst reducing material and process waste. Our Lattice Lite range of products have been adopted by Salomon for their road running and trail shoes.

PIPELINE COMPOSITES

Our new Gotex Xtru composite tape using carbon fibre reinforcement provides a 50% weight reduction versus legacy steel tapes allowing Oil & Gas operators to accelerate the conversion of legacy steel pipes to composite pipes, mitigating corrosion related issues. Pipe designs using our carbon Xtru composite tapes are in advanced stages of validation testing at a major pipeline manufacturer and will help drive the transition to non-metallics in Oil & Gas pipelines.

Innovation spotlight

APPAREL

Coats thread innovation has been focused on sustainability and circularity. The key drivers include Material Innovation – selection of substrates based on carbon footprint reduction like 100% post-consumer recycled polyester thread, to accelerate biodegradation, micro fibre pollution reduction and design for circularity.

Key trends

Thread is integral to apparel, footwear and technical textiles. As the world opts for a more sustainable future, it is imperative that Coats' thread leads the way, ensuring that all components of what we wear, use and interact with deliver on this goal.

How we are responding and our ambition

We have made a number of advances in our product offering to address the increasing demand for sustainable garments.

Eco-Cycle thread is made out of a proprietary blend of water based polymer and natural substrate to enable the disassembly of garments post end of life even after repeated washings. The thread remains intact during the consumer usage phase but enables easy disassembly for recycling by dissolving at 95°c. Eco-cycle has obtained a Platinum rating for Material Health from the Cradle to Cradle (C2C) Institute.

Eco B is made from recycled polyester with a special additive which accelerates biodegradation and helps in microfibre pollution reduction. Product offering includes premium polyester core spun, textured and embroidery threads.

Eloflex EcoVerde is the world's first high extension, 100% recycled, stretch thread for performance sportwear and next-to-skin garments.

FOOTWEAR

We are committed to efficient production and the most effective use of resources, raw materials and energy. We are always looking to improve – and with technological competence and numerous innovations, we develop the footwear solutions of tomorrow.

Key trends

Lightweighting, comfort, stability and durability combined with advanced technology, sustainability and innovation.

How we are responding and our ambition

We have short, medium and long-term programs for product and process developments.

Eco-strobe is not only made from 100% R-PET (Recycled Polyethylene Terephthalate), but is also 100% recyclable without any loss in quality.

Rhenoprint multi-zone – Added multi-zone to our existing Rhenoprint process which manufactures structural components with zero waste. Multi-zone allows us to adjust the amount of material used in the component in different areas to produce a more refined product for comfort and stability.

PERFORMANCE MATERIALS

Coats Performance Materials division provides personal protection yarns and fabrics for Thermal, Heat & Flame and Cut Protection applications. The product trends across these end uses demand ever increasing comfort, dexterity and an ability to protect against multi hazards such as cut and chemical or flame and electric arc.

Key trends

There is demand for ever lighter garments and gloves with increased protection and comfort. There is an increasing urgency to incorporate sustainable materials in new solutions.

How we are responding and our ambition

We continue to develop highly-engineered yarns and threads for us where performance is critical across a range of industries and applications.

FLX range brings comfort and stretch to our FlamePro for heat/flame protection applications and to our Armoren for cut protection end uses.

Armoren Gold incorporates high performance fibres in a patent-protected yarn process creating one of the finest, most dexterous gloves in the market with the cut protection levels normally associated with products twice as heavy. The latest iteration uses bio-based raw materials rendering the product genuinely sustainable.

FlamePro Splash fabric (patent-protected) provides best-in-class comfort with primary protection against molten splash and secondary electric arc resistance. The garments produced from FlamePro Splash are proving to be extremely popular with aluminium and other metal workers in sites large and small across the globe.

Market trends

TREND 1
VOLATILE ECONOMIC CLIMATE

The industries we serve, like most consumer focused industries, react to macro economic factors such as rising cost of living and higher than normal inflation in raw materials, freight, energy and labour. 2022 saw headline consumer inflation exceed c.10% globally, which impacted demand across our Apparel business, and to a lesser extent our Footwear business, during the latter half of the year, in addition to the increase in input costs. Although we saw a softening of some inflationary pressures towards the end of 2022, we are still cognitive of a high inflationary and volatile economic environment as we move through 2023.

Our response this year

Coats moved early to address the inflationary risk, managing to fully offset inflation during the year. We have offset inflation in the areas of raw materials, freight, energy and labour with pricing and self-help programmes.

By continuing to deliver on Speed, Productivity, Innovation, Quality, Reliability and Sustainability (SPIQRS) and focussing on the premium end of the market, Coats is strategically positioned to successfully navigate economic headwinds.

TREND 2
SUPPLY CHAIN DISRUPTION

Across the industries we serve, speed to market is increasingly a critical differentiator. Our customers are looking at their own supply chain resilience, including reviews of their supply base and sourcing geographies. During 2022, we saw industry supply chain disruption with reduced availability of raw materials, labour constraints and disruption of sea freight operations, all contributing to higher than normal levels of inflation globally. We expect these challenges to largely continue into 2023, increasing the importance of speed, agility and supply resilience across the industries we serve.

Our response this year

We have a resilient and global operational footprint, which offers peace of mind and superior reliability to our customers. We pivot quickly, responding to and supporting our customers' needs in a highly volatile environment. Our unrivalled global, agile footprint, and our scale proved invaluable as we delivered high levels of supply and customer service, despite multiple external challenges.

TREND 3
SUSTAINABILITY

Sustainability continues to increase in importance across the industries we serve, driven by consumer pressures, customer strategies and legislative changes. COP27 delivered further global progress across the environmental agenda. This continued 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.

Our response this year

We have continued to advance our sustainability journey in 2022 with positive progress made on our ambitious targets to deliver reductions in energy and water intensity. Collaborating with our supply chain partners we have delivered higher levels of circularity as a means of driving waste prevention and reduction.

Our recent Texon and Rhenoflex acquisitions both have sustainability strategies aligned to those of Coats, with footwear component solutions such as Rhenoprint delivering waste free production.

> "Coats continues to challenge itself, changing course to keep meeting the needs of our customers by supplying high-quality, agile solutions in a transient market."

Rajiv Sharma
Group CEO

Market trends cont.

TREND 4

GROWTH OF ASIAN DOMESTIC MARKETS AND ASIA BRANDS

Domestic consumer demand in Asia is 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 (e.g. the rollout of fibre optic cable networks) and economic growth, which means consumers buy more products needing high performance materials (e.g. 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.

Our response this 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 and in Footwear, we delivered market share gains and significant growth in China and made strong progress coming out of continued 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. We also had a very successful start producing and selling FlamePro branded flame-retardant fabrics in India mainly for use in garments destined for the middle eastern oil and gas market. Our two acquisitions in the footwear space are well positioned in China and Vietnam, and poised to take advantage of further Asia-driven growth.

> "As the leader of Apparel, I am excited at what opportunities the domestic Asia market holds for us, particularly within China and India."

Adrian Elliott
President, Apparel and Footwear

TREND 5

DIGITAL

Industry adoption of digital technology has continued to accelerate during 2022 as companies look to drive faster speeds, increased productivity, lower waste and end-to-end supply and materials transparency. We continue to embed our investments in technology of recent years to improve our supply chain and support functions, and remain as vigilant as ever of cyber security threats.

Digital technology across the industry is not limited to pure software solutions, as the industry becomes more and more responsive to sustainability-led innovations, we are seeing increased demand for solutions that use technology to simultaneously reduce waste and increase productivity.

Our response this 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 2022 bookings saw high double-digit growth ahead of reported sales growth, indicating confidence for continued future growth.

In our Footwear division we acquired, as part of the Rhenoflex acquisition, the proprietary 'Rhenoprint' 3D printing IP, which offers leading brands a zero waste, print-to-order solution with enhanced performance within the shoe.

In Apparel, we have begun selling Twine, our waterless digital colour printing technology solution that is integrated into Coats' own colour catalogue. This allows colour development in garments to be done in minutes, not weeks.

Rhenoprint and Twine in particular exemplifies how Coats is connecting talent, textiles and technology to make a better and more sustainable world.

Key performance indicators

Performance measures of the Group's progress

Link to strategy

- Profitable sales growth
- Transform the business
- Value creation

FINANCIAL KPIs

During 2022 we continued to monitor our performance and progress using a range of key performance indicators (KPIs), each of which is a non-GAAP measure. In the year, adjusted EBITDA growth and leverage were added to the range as the Board consider them, along with the existing KPIs, to be important measures to track business performance. For further details of how these financial Alternative Performance Measures are reconciled to the nearest corresponding statutory measure, see note 37 on page 166.

2020 and 2021 KPI comparators are as reported in prior years and do not include any restatement for discontinued operations.

Revenue growth

Definition

Annual organic growth in sales at like-for-like exchange rates.

2022 Commentary

Group organic growth ahead of expected medium term targets, driven by exceptional H1 performance in A&F, and growth across all three sub-segments in PM. Some industry destocking in A&F in Q4.

Performance

10%

2022	10%
2021	29%
2020	(19%)

Adjusted operating profit growth

Definition

Annual organic growth in operating profit, adjusted for exceptional and acquisition related items, at like-for-like exchange rates.

2022 Commentary

Adjusted operating profit increased to $235m reflecting strong pricing and mix fully offsetting inflation, as well as strategic projects being delivered ahead of schedule.

Performance

22%

2022	22%
2021	75%
2020	(43%)

Adjusted EBITDA growth

Definition

Net income from continuing operations before interest, tax, depreciation, amortisation and impairments, excluding exceptional and acquisition related items.

2022 Commentary

Adjusted EBITDA increased to $283m reflecting strong pricing and mix fully offsetting inflation, as well as strategic projects being delivered ahead of schedule.

Performance

16%

2022	16%
2021	49%
2020	(34%)

Adjusted earnings per share growth

Definition

Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.

2022 Commentary

Adjusted EPS increased 14% to 8.2c, reflecting strong trading performance and delivery of strategic project savings.
A further reduction in effective tax rate, with some offset from higher interest charges.

Performance

14%

2022	14%
2021	181%
2020	(65%)

Adjusted free cash flow

Definition

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.

2022 Commentary

Strong cash flow underlines operating profit growth, alongside disciplined approach to working capital and capital expenditure.

Performance

$114m

2022	$114m
2021	$113m
2020	$28m

Leverage

Definition

Multiple of Net Debt (excluding leases) to EBITDA calculated on a pro forma basis (includes the full year impact of acquisitions).

2022 Commentary

Pro forma leverage remains comfortably within the 1-2x target range following the Texon acquisition, underpinned by strong free cash flow.

Performance

1.4x

2022	1.4x
2021	0.7x
2020	1.2x

Adjusted return on capital employed (ROCE)

Definition

Pre-exceptional operating profit from continuing operations for the year divided by capital employed (property, plant and equipment, acquired intangibles, right of use assets and lease liabilities plus net working capital) at year end.

2022 Commentary

Strong operating profit performance alongside a continued well controlled asset base. Capital employed has increased in the year largely as a result of the newly acquired acquisition intangible assets.

Performance

30%

2022	30%
2021	40%
2020	22%

Key performance indicators cont.

* disposed businesses (Brazil/Argentina) have been excluded to create a like for like comparison between 2018 baseline and 2022 performance

2022 SUSTAINABILITY KPIs

2022 saw the maturation of our highly ambitious 2019-2022 sustainability targets which span across the five pillars of our sustainability strategy. We take great pride in the results delivered in 2022, and have now set our focus on the next chapter of our journey which will span 2023-2026.

Water Intensity*

Target of 40% reduction by 2022 against our 2018 baseline

Definition

Litres of water used per kilo of finished production.

2022 commentary

We reduced our water intensity to 52.8 Ltrs/Kg versus our 2018 baselines of 85.2 Ltrs/Kg.

This significant progress was delivered through multi-site optimisation of dye process parameters and comprehensive leak remediation programmes.

Performance

38%

2022	38%
2021	24%
2020	14%

Energy Intensity*

Target of 7% reduction by 2022 against our 2018 baseline

Definition

kWh of energy used per kilo of finished production.

2022 commentary

Our energy intensity reduced to 8.2kWHr/Kg from our 2018 baseline of 9.09kWHr/Kg.

Smart Energy metering rollout was advanced which delivered new actionable insights yielding energy intensity reductions. Focus was given to our Energy Basics programme, sharing best practice energy management across sites.

Performance

10%

2022	10%
2021	7%
2020	3%

Effluent quality

Target of 100% ZDHC (Zero Discharge of Hazardous Chemicals) compliance by 2022

Definition

Percentage of effluent that is compliant to ZDHC Foundational standards for effluent and sludge.

2022 commentary

Further improvements in effluent quality, achieving 92% ZDHC compliance versus an 82% compliance in 2021.

Performance

92%

2022	92%
2021	82%
2020	74%

GPTW© certification

Target of 80% by 2022

Definition

Percentage of employees in Coats units that have a Great Place To Work (GPTW©) or equivalent certification.

2022 commentary

Post pandemic we have seen a mass acceleration of Great Place to Work certification covering 86% of employees in 2022, up from 83% in 2021, and from 6% in 2020.

Performance

86%

2022	86%
2021	83%
2020	6%

Waste %*

Target to reduce waste by 25% by 2022 from a 2018 baseline

Definition

Waste generated across our end to end supply chain as a % of finished goods produced.

2022 commentary

2022 saw significant acceleration of our waste management programmes globally with us achieving a massive improvement in delivery and full achievement of our target. Circularity of packaging waste and reduction in effluent sludge generation played a significant part in this delivery.

Performance

25%

2022	25%
2021	1%
2020	3%

2024 SUSTAINABILITY KPI

Sales of recycled material

Target is for 100% by 2024

Definition

Percentage of premium product sales that are made with recycled material.

2022 commentary

We continue to make strong progress in this area, steadily increasing supply by broadening our supplier base.

Performance

23%

2022	23%
2021	19%
2020	13%

BUSINESS CRITICAL NON-FINANCIAL KPI

Recordable accident rate (RAR)

Definition

No. of recordable work related injuries and illnesses per 100 full-time employees per year.

2022 Commentary

Persistent focus on preventative measures such as training and hazard identification and remediation helped deliver 11% reduction in recordable incidents in the year.

Performance

0.40

2022	0.40
2021	0.45
2020	0.59

Stakeholder engagement

Developing strong and constructive relationships with our stakeholders is part of our culture and is vital to achieve our purpose and our strategic ambitions.

Below we summarise who our key stakeholders are, how we engaged with them during 2022, what we learned and what we will do going forward. You can read our section 172 statement on pages 39 to 41, which sets out how the Board and management considered certain insights gained from our stakeholders in our decision making. Read more about why we consider these stakeholder groups to be important to the delivery of our strategy in our Business model section on page 14.

OUR STAKEHOLDERS

EMPLOYEES
See page 32

CUSTOMERS
See page 33

SHAREHOLDERS
See page 33

ENVIRONMENT
See page 33

COMMUNITIES
See page 34

SUPPLIERS
See page 34

EMPLOYEES

Our 17,000+ 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 2022

The Board met with members of the workforce at all levels during its site visit to the Rhenoflex facilities in Germany in September. This included meeting employees from both of our recent acquisitions as well as members of the Performance Materials and Apparel and Footwear divisions. During the away week in October, the Board met various groups of employees at the Huamantla and Orizaba plants, as well as having sessions with members of the workforce during lunches and dinners throughout the week.

Fran Philip, Designated Non-Executive Director for Workforce Engagement, continued to engage through a combination of in-person and virtual sessions held with employees based in Europe, Asia and Mexico. Fran had discussions with the Chief Operating Officers, and she also continued to attend our DE&I Network calls to listen and speak to a wide range of people from across the Company.

The Board received regular people updates as part of discussions on the acquisitions, divestment and Strategic Projects agenda at Board meetings, as well as from the Group's Chief HR Officer. These sections also covered a review of the insights from employee surveys that were undertaken, including Great Place to Work and the Future of Work.

Steve Murray and Heather Lawrence met with employees from various parts of the business as part of their induction programmes and shared their impressions with the Board.

What we learned

Employees continue to value the Company's culture, the opportunities to learn and develop, and the Group's approach to health and safety. Common feedback for areas for continued focus included opportunities for women and more opportunities across teams globally.

What we are going to do in 2023

The Board will continue to seek opportunities to conduct site visits during its annual away week and to directly engage such as at the global leadership conference, as well as monitoring key metrics such as health and safety and engagement to continue to gain workforce insights. Fran's very important role will continue, with a focus on ensuring that the embedding of the new divisional structure and the ongoing implementation of our Strategic Projects are resulting in the desired cultural outcomes, noting the importance of the culture to employees. The 'Coats for All' programme will continue with appropriate updates on DE&I and opportunities from the Chief HR Officer, to allow monitoring of the items identified as important by employees. The insights from employee surveys will also be appropriately considered, as will other relevant metrics including in relation to employee engagement and health and safety.

Stakeholder engagement cont.

CUSTOMERS

Our global footprint provides unrivalled access to markets and customers. We want to proactively work together with our customers to deliver additional value together.

How the Board engaged in 2022

The Board closely monitored customer insights provided by the Executive Directors and senior management as part of the discussions regarding the acquisitions of Texon and Rhenoflex. As part of the agenda at the Company's Strategy Day, emerging trends and behaviours were discussed in depth by the Board and management, relying on inputs sought directly from key customer meetings. During the Board visit to Mexico, a key customer in the region was invited to discuss trends in the region at the Board meeting.

Our global customer surveys programme continued using our dedicated commercial, sales and marketing teams to connect and partner with customers and brands, by listening and innovating to achieve jointly desired outcomes. The Audit and Risk Committee considered relevant feedback received through the customer audit review process.

What we learned

As global uncertainty continues, speed, agility and reliability continue to be critical to our customers. The acquisitions of Texon and Rhenoflex were well received with customers noting that they were excited to see the developments in the Footwear business.

An increasing number of consumers continue to focus on sustainability when making their purchase decisions and Coats' continued innovation and development in this area is a key differentiator.

What we are going to do in 2023

In 2023, the Board will continue to use existing two-way feedback structures to regularly review trends and insights identified by management across all parts of our business. Opportunities for direct engagement with the Board, either as a part of Board visits or in the boardroom, will be scheduled when appropriate. We will continue to focus on sustainability and innovation, in line with our business model, to appropriately respond to the appetite for further solutions expressed by customers during engagement sessions.

SHAREHOLDERS

Coats maintains and values regular dialogue with shareholders throughout the year, so that they can more accurately assess our value and the opportunities and risks of investing in our business.

How the Board engaged during 2022

The Capital Markets Day held in October allowed a wide range of existing and prospective investors the opportunity to engage directly with the Group CEO, Chief Financial Officer, Chair and Senior Independent Director together with other key executives and managers, and share their views on integration and opportunities. The event showcased our expanded and enhanced Footwear business and included detailed presentations on Rhenoflex and Texon.

The Board was delighted to return to a physical AGM in 2022 whilst retaining the option for shareholders to listen to the business of the meeting remotely. The Group CEO and Chief Financial Officer, together with the Investor Relations function, are regularly in contact with investors through calls and roadshows throughout the year. In 2022, there was a focus on investors from the US. The Chair and Chair of the Remuneration Committee also joined investor calls where appropriate. The Board receives an update at every Board meeting from the Investor Relations function on feedback from investors and key trends, and these included feedback from the visits to certain US sites by some of our major shareholders. Additionally, the Board carefully considered the progressive dividend policy when deliberating in relation to the interim and final dividend levels, noting the importance of returns to shareholders.

What we learned

Regular conversations with both existing and prospective investors allow the Company to share timely information on key strategic and operational matters. The return to face-to-face engagement was positively received and investors were excited to see the opportunities arising from the new acquisitions.

Investors continue to seek long-term financial performance and shareholder returns as well as good ESG credentials.

What we are going to do in 2023

As well as continuing our programme of engagement on progress in our three divisions, the Chair of the Remuneration Committee has engaged on the new Remuneration Policy in 2023 (see the Remuneration Committee report for further details). We will continue to consider total returns to shareholders in our Board discussions. The Chair, Group CEO and Chief Financial Officer will continue to attend relevant investor meetings as will the Chairs of the Committees if required.

ENVIRONMENT

Coats is working proactively with customers and suppliers to help them improve the sustainability of their products, and to minimise the environmental impact of our industry.

How the Board engaged in 2022

After consultation with a wide variety of stakeholders, the Board approved a new suite of

Stakeholder engagement cont.

sustainability policies, including a Climate Change policy, during 2022 and also agreed a range of new 2026 sustainability targets as recommended by the Board's Sustainability Committee. The Sustainability Committee met twice and considered the views of customers, suppliers and investors in determining how to continue to deliver ongoing sustainability progress in our business operations.

Environmental metrics are presented at every Board meeting and progress is tracked across key performance measures, including our sustainability targets programme. There are discussions as to what improvements are required to ensure we continue to deliver against our ambitions. The Board also considered several key supply contracts with providers of renewable energy. Our recent acquisitions offer new and exciting ways to progress the Group's zero waste to landfill ambitions.

What we learned

Our stakeholders have ever increasing expectations for how a responsible business should operate and reduce its impact to mitigate the climate emergency. Shareholders shared their views on living wage policies, as well as other ESG-related matters.

We need to continue to challenge ourselves to provide opportunities for growth while also protecting the environment and delivering for all of our stakeholders.

What we are going to do in 2023

In line with the insights received, the Board will review the detailed plans for and progress in achieving the 2030 Science Based Targets, including the transition to renewables. In 2023, the Board and its Committees will continue to monitor key environmental metrics and climate-related metrics, as well as the progress of our Audit and Assurance policy and activities.

COMMUNITIES

We operate in fifty countries across six continents. By empowering people and championing inclusion and diversity, we can help build thriving communities and strengthen our business.

How the Board engaged in 2022

The Board visit to Mexico included attendance at the Asociación Orizaba Propone AC (AOPAC) Foundation event with Coats, where the Foundation received donations from the Company. The Directors were able to directly interact with people living in the areas in which we operate, as well as with local officials, to gain further insights. As part of the decisions taken in relation to acquisitions and divestments during the year, the Board considered the impact on the local communities, especially in relation to the changes made in our production footprint.

Communities were also considered as important stakeholders regarding our new suite of ESG policies, particularly in relation to the Living Wage and Climate Change policies.

What we learned

The impact of operations on local markets is especially important in the context of the current economic volatility and increased inflation. The skills and development opportunities, especially those with a DE&I focus, provided by the Group continues to be important and valued by the communities in which we operate. Building strong relationships with those close to our business helps us grow.

What we are going to do in 2023

The Board is strongly committed to proactive engagement with our communities and will continue to be mindful of the insights shared by stakeholders during engagement when considering ESG-related matters in 2023. We will continue to focus on our Coats for All initiative, including the focus on the Coats for Her element, to support our DE&I aspirations and respond to the insights received. The Board will monitor key metrics including those relating to DE&I. More details of our activities can be found in our Sustainability Report online (**www.coats.com/sustainability**).

SUPPLIERS

Our suppliers do not just supply goods and services to us, but are true partners throughout our processes and aligned to our requirements on compliance, quality, sustainability and innovation ethos.

How the Board engaged in 2022

In 2022, members of the Group Executive Team provided Group-wide oversight of suppliers in the aftermath of the Covid pandemic, allowing increased visibility and ability to mitigate the impact of challenges. Management shared appropriate insights in Board updates. The Audit and Risk Committee continued to consider relevant findings from Supplier audits. The Board has reviewed our supply footprint as part of the considerations regarding acquisitions, divestments and the Strategic Projects and considered factors impacting our supply chain that were identified by suppliers during engagement with management. In line with our Delegated Authorities Policy, the Board reviewed appropriate contracts with several suppliers and focused on the provision of renewables where possible.

What we learnt

Our well-established Code of Conduct and Supplier audits bring clear expectations of what we expect from our suppliers and what they can expect from us. This is appreciated throughout the supply chain. Our continued focus on sustainability creates opportunities for new relationships as do our new acquisitions.

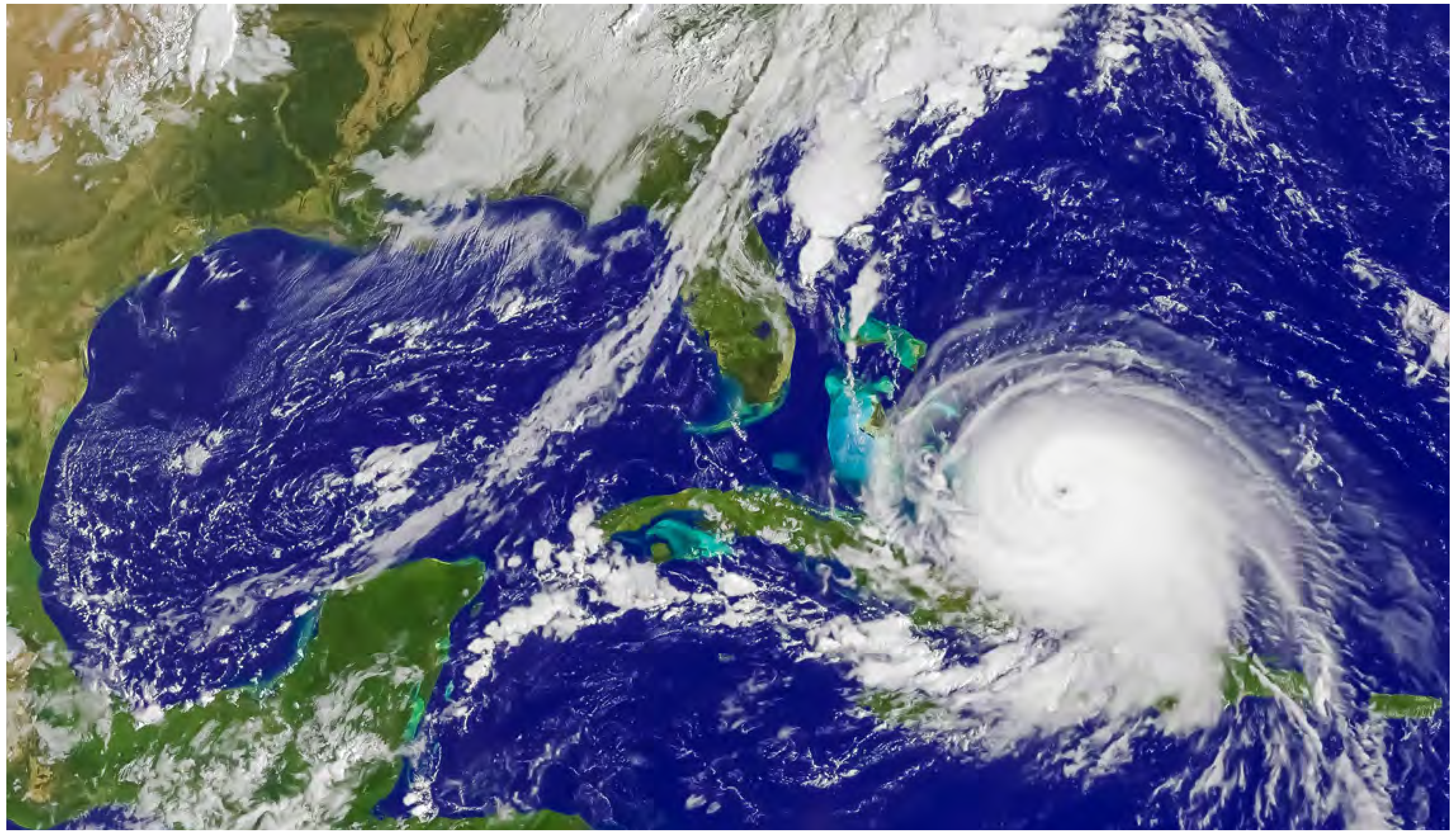
What we are going to do in 2023

The Board will continue to use existing feedback structures to regularly review supply-related trends and insights identified by management across all parts of our business. Direct engagement as a part of Board visits or in the boardroom will be kept under review and scheduled when appropriate. The Supplier Code will be refreshed and this will be used as an engagement tool. Insights will be considered at the Audit and Risk Committee.

Taskforce on climate-related financial disclosures

In complying with the requirements of Listing Rule 9.8.6R(8) on climate-related disclosures, we consider our disclosure to be consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures as detailed in "Recommendations of the Task Force on Climate-related Financial Disclosures", 2017, with use of additional guidance from "Implementing the recommendations of the Task Force on Climate-related Financial Disclosures", 2021. Our disclosures cover all divisions over which Coats has operational control but does not include acquisitions made during the course of FY2022.

We recognise that climate change presents our business with significant risks and opportunities and have integrated assessment of climate change risks into our regular risk management process as well as identifying climate as a principal risk. This process is described in detail on pages 42 to 49 with a section on climate risk. During 2022 we expanded our analysis of risks and opportunities related to climate and extended our TCFD disclosures in line with latest all sector guidance and requirements. As a result, we have created a stand-alone TCFD report which can be found **here**. We have created a separate TCFD report because of the significant expansion of content in the report this year. This report covers the calendar year 2022 aligning to our Annual Report period.



Recommendation	Recommended disclosures	Disclosure level	Disclosure references
Governance Disclose the organisation's governance around climate-related risks and opportunities	a) Describe the Board's oversight of climate-related risks and opportunities	Complete	ARA 42, 57-59 TCFD 03
	b) Describe management's role in assessing and managing climate-related risks and opportunities	Complete	ARA 42-43, 46 TCFD 03
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Complete	ARA 46 TCFD 05-08
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Complete	TCFD 09-14
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Complete	TCFD 09-14
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation's processes for identifying and assessing climate-related risks	Complete	ARA 42 TCFD 04
	b) Describe the organisation's processes for managing climate-related risks	Complete	ARA 42 TCFD 04
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Complete	ARA 42-43, 46 TCFD 04
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Complete	TCFD 15
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Complete	ARA 82
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Complete	TCFD 15

Taskforce on climate-related financial disclosures cont.

The following key risks and opportunities are discussed in our TCFD report

TCFD category	Key Risk or Opportunity
Transition: Current and Emerging Regulation	**Risk 1:** Introduction of carbon taxes leading to increased energy prices.
Transition: Market and Technology	**Opportunity 1:** Growth in light-weighting products in transport markets, enabling significant increase in market share gives us competitive advantage both from a product perspective and an operational sustainability perspective.
Transition: Market, Technology and Reputation	**Risk 2:** Declining sales due to shifting customer sentiment in terms of transitioning to a low carbon model.
Transition: Market	**Opportunity 2:** Increased market share with apparel and footwear brands.
Transition: Regulation and Technology	**Risk 3:** Inability to source sufficient renewable energy to meet emissions reduction targets.
Transition: Policy and Technology	**Risk 4:** Inability to source sufficient recycled raw material to fully transition to a low carbon product range and hence achieve the SBTi targets.
Physical: Acute	**Risk 5:** Increase in flood damage risk, in a few Asian units.
Physical: Chronic	**Risk 6:** Disruption of water supply in some units.
Physical: Chronic	**Risk 7:** Extreme heat leading to possible need for plant relocation to ones with better temperature regulation.

Our balanced evaluation is that in the short term our risks and opportunities are equivalent in magnitude. In the longer term the physical risks increase, and we will be better able to disclose the overall impact once we have completed the assessment of additional opportunities during 2023 as described in our TCFD report.

Non-financial information statement

The non-financial reporting regulations in section 414CA and 414CB of the Companies Act 2006 require the disclosure of specific information relating to environmental matters, the Company's employees, social matters, respect for human rights and anti-corruption and anti-bribery matters, a summary of which is set out below. Full details of all our policies on these matters can be found in our **downloads section**. We are Participants of the United Nations Global Compact (UNGC) and are committed to the 10 principles of the Compact, covering Human Rights, Labour, the Environment and Anti-corruption. Our **Sustainability Report** is our formal annual UNGC Communication on Progress (COP) and contains fuller information across all of these areas.

The Environment

Operating sustainably with care for the environment is embedded into our purpose and is a major area of focus for our sustainability strategy. We have committed to near-term emissions reduction targets for 2030 and have submitted Net-Zero targets for 2050 which are currently being validated by Science Based Targets initiative. Delivery of these targets requires us to reduce and decarbonise our energy requirements and to transition our raw materials away from virgin oil-based products. Having nearly delivered on our water intensity reduction goal we are now focussing on increasing water recycling so that we reduce the environmental water stress from our operations. We operate to global industry standards in terms of effluent quality and have multiple programmes in place to reduce our waste and redirect it to circular economy solutions. We now have a zero waste to landfill target.

Our key policies in this area are our Environmental and Climate Policies and these can be found on our **website** and our environmental performance is described in detail in our **Sustainability Report**. Our energy use and emissions performance can be found in the Directors' Report page 82 and in more detail in our **Sustainability Report**. The importance of environmental policies and performance is described on page 41.

Environmental non-compliance and climate change are both considered to be principal risks and details of the risk evaluations and mitigating actions are shown on pages 46 to 47. Our approach to responding to the risks and opportunities arising from climate change are summarised in our TCFD statement pages 35 to 36 and in more detail in our **TCFD Report**. We measure our emissions impact for Scopes 1 and 2 monthly and for Scope 3 annually. Our results can be seen in our emissions disclosures on page 82. Our key risk in environmental terms relates to effluent quality and we have on-line monitoring of key effluent measures in our large units and have extensive tests done by external laboratories of effluent quality every six months. Our performance is shown in our KPIs on page 31.

Employees

We are committed to providing a safe and respectful working environment for our employees and other stakeholders. We aim to have an organisational culture which promotes inclusion, diversity, equal opportunities, personal development and mutual respect. We aspire that our colleagues will enjoy being at work and will all contribute to creating an environment that is free from any discrimination, bullying or harassment. We seek to promote physical and mental wellbeing in our workplaces.

Non-financial information statement cont.

Our key people-related polices are our Key People Principles, our Health and Safety Policy, our Worldwide Employment Standards, our Living Wage Policy (see page 41), our Ethics Code (see page 48), our Equal Opportunities Statement and our Speak Up (Whistleblowing) Policy (see page 81). All of these can be found on our **website**. Targets and performance on our people policies is described on pages 16 to 17 of this report and in our **Sustainability Report**.

Principal risks related to this area are the failure to attract, retain and develop diverse and inclusive talent and capability given business changes, growth in new areas and labour availability, and the risk of serious Health & Safety incidents. These risk evaluations and mitigations are described on pages 44 to 49.

Human Rights

Coats is committed to protecting the Human Rights of our employees and those working in our supply chain. We fully support the United Nations (UN) Guiding Principles on Business and Human Rights in our operations and we uphold the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core International Labour Organisation (ILO) Conventions and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the related Due Diligence Guidelines for the Garment and Footwear Sector. Every two years we do a Human Rights Risk Assessment. This was last done in 2021 and will be repeated in 2023. Our Global Internal Audit (GIA) team include aspects of Human Rights assessment in their regular audit programmes. Details on the outcomes of our GIA audits in this area are included in our Sustainability Report on page 58.

The GIA team completed 8 audits during 2022. No human rights violations were found and 10 human resource management process concerns were raised and these have all been resolved or are being addressed.

We collaborate with our suppliers to extend our principles up our supply chain and perform regular Supplier Code audits on suppliers that are identified as being at higher risk. The outcomes of our Supplier Code audits are detailed in our Sustainability report on page 58. 322 audits have been completed between 2021 and 2022. Nineteen of these required improvement and need to show that they are making progress. 7 audits raised serious issues, 4 have been resolved after re-auditing and 3 (all from 2022 audits) are pending reaudit. If the suppliers do not resolve the issues then they will be delisted.

Our key policies on Human Rights are our Worldwide Employment Standards and our Supplier Code and these can be found on our **website**.

Further details on performance in this area can be found in our **Sustainability Report** and in our **Modern Slavery Statement**.

Social

We link to wider society through our suppliers and their employees, through our relationships with our local communities and neighbours and with our customers and consumers through our products.

Our Supplier Code, described above, describes our expectations of employment standards for our suppliers. There is a risk of non-compliance here and reputational damage and the Supplier Code audit programme helps us to manage this risk. The results have been described above.

We have a flexible community engagement approach that allows our business units to engage with their communities on issues that are important at a local level. The principal risk here is the environmental incident one described on page 47 and our management of this has been described above. See page 34 and for more details our **Sustainability Report**.

Ensuring that our products don't present any risk to our customers and consumers is actively managed by our Restricted Substances List (RSL) programme, which is updated annually. Application of this is part of our Supplier Code management as all inputs into our processes have to be certified as compliant to our RSL list apart from a small number of industrial products with performance-driven exceptions that are approved at senior management level.

Anti-bribery and anti-corruption

Coats is committed to the highest levels of ethical behaviour in all of our operations and has a zero-tolerance approach to any bribery or corruption or unethical behaviour in our operations and supply chains. We have a rolling programme of raising awareness across the business under the "Do the Right Thing" banner and this is underpinned by biennial training for all key staff (around 2700 in total) in anti-bribery and anti-corruption, competition law and ethical behaviour. We have a whistleblowing system, "Speak up", that has internal and external reporting options and where every issue raised is fully investigated. The outcomes from our Whistleblowing process are detailed on page 81.

Our key policies in this area are our Anti-bribery and Anti-Corruption Policy, our Competition Law Policy, our Ethics code, our Gifts and Entertainment Policy, our Speak Up (Whistleblowing) Policy and our Undue Influence Policy. All of these policies can be found on our **website**. The main risk we are exposed to in this area is of non-compliance from our upstream supply chain and the reputational impact that could have on us. This is managed proactively through our Supplier Code auditing process described above.

Other matters

In addition, information required in relation to the company's business model is described on page 14. Principal risks including those that relate to matters above are included on pages 44 to 49. Key non-financial KPIs are shown on page 31 where we describe performance against targets up to 2022 and on page 24 where we lay out the new targets that have been set for 2026.

Non-financial information statement cont.

Non-financial information statement

POLICY	DESCRIPTION
People	
Key People Principles	This statement identifies the range of policies and procedures we have in place to manage our key people-related issues.
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.
Global 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 2022 and is in accordance with the requirements of the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act of 2010. Furthermore, we support the United Nations Guiding Principles on Business and Human Rights throughout all our operations.
Governance	
Anti-bribery and Anti-corruption Policy	This policy outlines the control of actual and suspected corruption and bribery within Coats, and the processes to be followed in the event of actual or suspected instances of corruption or bribery being discovered.
Gifts and Entertainment Policy	This policy sets forth the rules related to employees accepting and offering gifts, entertainment, hospitality and meals from and to current customers, suppliers, joint venture partners, brand representatives and others conducting (or proposing to conduct) business, directly or indirectly, with Coats.
Competition Law Policy	This policy supports Coats' commitment to observing and complying with all applicable competition laws, rules and regulations wherever it operates around the world while acting with the highest ethical standards, in an open and honest way.
Suppliers	
Supplier Code	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.
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.

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 Board believes that considering our stakeholders in key business decisions is not only the right thing to do but is core to our ability to drive value creation over the longer term.

On pages 32 to 34 we outline the ways that the Board has engaged with our six groups of stakeholders including what was learned and what we will do in 2023 as a result of this engagement. The Board has had regard to S172 Factors in all of its key decisions and discussions, and examples of these are set out below.

Strategic discussions and long-term consequences

Agile but responsible decision making is key to long-term success in the current period of global volatility. As the shape of the Group transforms as a result of the implementation of the Strategic Projects and the change in our operating structure (see page 40), we rely on the Group's well established systems and ways of working to ensure that there is proper consideration of the potential short and long term consequences of decisions. The Board considered the insights received from stakeholders as set out on pages 32 to 34, including how to appropriately manage the impact on employees and communities when changing the location of some of our operations, noting the challenge of maintaining employee engagement through the period of change. The feedback gathered from the direct engagement with our investors at the Capital Markets Day, and from conversations with customers following the announcement of the acquisition of Texon and Rhenoflex regarding the opportunities for the Group, proved informative when the Board discussed the creation of the Footwear division in the context of the new operating model.

High standards of business conduct

Balancing the needs of our different stakeholders, and noting that their needs might not always align, required the Board to consider the likely consequences of Board decisions and their impact on the success of the Company. Considering our long-term impact through all relevant lenses, including our potential environmental and social impact, is critical to ensure we maintain our reputation for 'doing the right thing'. Accordingly, the Board valued the insights received from shareholders and other environmental-related stakeholders that were reflected in the ESG-related policies and the 2026 sustainability targets (see page 41). We continue to challenge ourselves, and those in our supply chain, to demonstrate the highest standards of conduct in our dealings and the Board together with the Audit and Risk Committee monitor these areas, including the insights from supplier audits, and discuss interventions with management where required.

Board information – the correct inputs

Equipping our leadership to make decisions in the right way on the basis of the correct information relies on good Group-wide governance and reporting structures. Board papers continue to make it easy to identify the key stakeholders for the matters under consideration and provide relevant information relating to them. The Board reviews and probes the information presented and receives assurance where appropriate.

Specific examples of Board decision making, including how stakeholders were considered and further examples of how their input contributed to the outcomes, are shown on pages 40 to 41. Other information considered by the Board during 2022 relating to the S172 Factors is set out below:

S172 Factor	Relevant disclosures
(a) The likely consequences of any decision in the long-term.	– Chair's statement (pages 6 to 7) – Strategy (page 12) – Business Model (pages 14 to 15) – Sustainability (pages 24 to 25) – Principal risks and uncertainties (pages 42 to 49) – Long term viability statement (page 49)
(b) The interests of the Company's employees.	– Business model (page 15) – Culture, DE&I, and employee health and wellbeing (People and Culture, pages 16 to 17) – Key performance indicators (GPTW© certification, page 31) – Stakeholder engagement (page 32) – Culture and ensuring alignment (The role of the Board, pages 65 to 66)
(c) The need to foster the Company's business relationships with suppliers, customers and others.	– Business Model (pages 14 to 15) – Stakeholder engagement (pages 33 to 34) – Principal risks and uncertainties (pages 44 to 49) – Operating review (pages 51 to 52)
(d) The impact of the Company's operations on the community and the environment.	– Stakeholder engagement (pages 33 to 34) – Sustainability (pages 24 to 25) – TCFD disclosures (pages 35 to 37) – Principal risks and uncertainties (pages 46 to 47) – Directors' report (SECR disclosures, page 82)
(e) The desirability of the Company maintaining a reputation for high standards of business conduct.	– Culture and values (People and Culture, pages 16 to 17) (Values, page 11) – TCFD disclosures – Non-financial information statement (pages 36 to 38) – Principal risks and uncertainties (pages 42 to 49) – Audit and Risk Committee Report (pages 74 to 75) – Whistleblowing (page 81)
(f) The need to act fairly as between members of the Company.	– Stakeholder engagement (page 33) – Leadership and engagement (page 64)

Section 172 statement cont.

BOARD DECISION MAKING DURING THE YEAR

Examples of Board decision making during the year and S172 Factors considered	Stakeholder	Stakeholder considerations and outcomes
Acquisition of Texon and Rhenoflex The Board announced the acquisition of Texon in July 2022 quickly followed by the announcement of the acquisition of Rhenoflex in August 2022. In discussing these acquisitions the Board considered all aspects of future operations including fostering relationships with, and the expectations of, new and existing employees, suppliers and customers. The attractiveness of Texon's and Rhenoflex's products to customers was considered, noting that innovation and sustainability had been identified as priorities for customers in the insights received during engagement. Fundamental to the decision was the selection of the appropriate funding structure for both acquisitions, particularly to ensure the need to act fairly as between the members of the Company, and consideration of the long-term impact of this on the financial position of the Group.	CUSTOMERS SUPPLIERS COMMUNITIES	The importance of fostering and maintaining business relationships was carefully considered. The Board discussed the synergistic opportunities to customers and the potential to offer enhanced partnership when considering the acquisitions. The impact on the supply chain, including the advantages of working at scale to further mitigate risk, was noted. Texon and Rhenoflex both had facilities in new geographies and the responsibilities of the Group's impact on new communities were understood.
	EMPLOYEES	The need to retain key talent balanced with the need to ensure the appropriate business structure going forward was carefully considered by the Board in relation to the acquisitions.
	ENVIRONMENT	The innovative products offered by Texon and Rhenoflex (including ProWeave and Rhenoprint 2.0) offered new opportunities for the Group in relation to sustainability and potential reduced environmental impact.
	SHAREHOLDERS	Consideration of long-term returns to shareholders was a key factor of both business cases as well as consideration of the correct funding mechanism for both acquisitions. The equity placement for Rhenoflex included an offer to retail shareholders to ensure fair treatment as between shareholders.
	Outcome – both acquisitions were approved by the Board. The equity placement for the funding of Rhenoflex was oversubscribed and there was a positive reception from the market and customers to the announcement of the acquisitions.	
Strategic Projects The Board announced a programme of Strategic Projects in early 2022 to appropriately refresh our footprint by positioning key roles and operations closer to our customers. This included considering the interests of employees, which markets the Group should continue to operate in, and how the various impacts should be managed. After carefully considering the trends in customer demands, including the need for speed and the impact of global volatility on our supply chain, the Board concluded that it was appropriate to undertake the Strategic Projects to ensure the Group remained agile and was continuing to appropriately manage costs to ensure long-term success for all its stakeholders. The importance of maintaining the Company's high standards of business conduct was considered at all stages of the decision making process.	CUSTOMERS COMMUNITIES SUPPLIERS	Proposals to optimise the locations and efficiencies of business operations were reviewed considering the feedback of current customers and communities. Noting the changes proposed to the geographic footprint, the Board considered the opportunities presented by new facilities in Mexico and the potential changes to suppliers and customers following the divestment of the Brazilian and Argentinian businesses.
	EMPLOYEES	Changing the operational footprint led to impacts on our workforce, which were considered by the Board through regular People updates. The advantages of closer geographic links to and the opportunity to foster closer business relationships with customers were balanced with re-aligning roles within the Group and the need to mitigate labour availability risk.
	SHAREHOLDERS	The long-term financial benefits of the Strategic Projects were balanced against the short-term costs.
	Outcome – the Board approved the optimisation of the portfolio and footprint including moving certain roles in the corporate functions closer to customers.	
Change to divisional operating structure At the end of 2022, following the key decisions outlined above and the continued monitoring of the progress in the Strategic Projects, the Board considered how the Group should be structured to ensure long-term sustainable success in light of the internal and external changes. Feedback gathered from investors and customers following the acquisitions in relation to the potential for Footwear was noted. Careful consideration of the current matrix structure versus the implementation of a new divisional structure rightly included discussion regarding the interests of employees and other stakeholders.	CUSTOMERS SUPPLIERS	Following the business transformation outlined above, the Board considered how the revised shape of the Group could best serve customers' needs and industry trends. In light of the desire to drive clarity and focus in the delivery of superior business outcomes, the impact on the global supply chain of three divisions rather than a geographic based business model was considered.
	EMPLOYEES	Retention of key business talent and the identification of the correct leadership teams for each division was considered by the Board.
	SHAREHOLDERS	The Board considered the long-term impact on the operating model and concluded that the structure would lead to a more profitable business.
	Outcome – The divisional structure was approved, and the Board will continue to monitor the impacts of implementation on stakeholders.	

Section 172 statement cont.

Examples of Board decision making during the year and S172 Factors considered	Stakeholder considerations and outcomes	
Ukraine and Russia Following the Russian invasion of Ukraine, there were various Board discussions as to how to appropriately support our impacted employees in Ukraine as well as considering the appropriate course of action for our operations in Russia to ensure fair treatment of our people. Updates were provided by management on the safety of our employees in the region as well as the interactions with local customers and suppliers.	EMPLOYEES	The Board considered our employees in the region first and foremost, and all appropriate efforts to support the safety of those in the region were agreed immediately.
	CUSTOMERS COMMUNITIES SUPPLIERS	The Board considered relationships with the local community in Russia, and the customers and suppliers, noting the size and nature of operations in the region and balanced this with the importance of maintaining the Company's reputation for 'doing the right thing' and ensuring absolute adherence to the sanctions.
	Outcome – In response to the Russian invasion of Ukraine and in line with sanctions, the Board ensured that all appropriate steps were taken to support the safety of our employees in Ukraine and also determined that it was appropriate for the Group to exit Russia.	
New sustainability targets, policies and DE&I initiatives including 'Coats for All' As set out elsewhere in this Annual Report, the Board considered and approved several ESG-related policies at the start of 2022, including living wage and climate change. Insights from direct engagement with investors relating to living wage and other ESG-related matters had been considered when forming the proposals made to the Board. In line with the Company's purpose, the interests of employees and the Company's long-term sustainability impact were considered. The Sustainability Committee and then the Board appropriately debated the new 2026 sustainability targets and their linkage to senior management Long Term Incentive Plans (LTIP), noting that the LTIP has had a sustainability linked element since 2020. Mindful of ensuring the Company maintained its reputation for high standards of business conduct and noting the expectations of investors, the Board considered the long-term financial and environmental impacts of the new targets. Additionally, when considering the 'Coats for All' programme, the Board was cognisant of the critical role that our diverse and engaged workforce plays in our long-term success and achievement of our strategic ambitions.	CUSTOMERS SUPPLIERS	The Board recognises that sustainability and ESG continue to increase in importance for our current and future customers and suppliers. Considering the feedback received, the new 2026 sustainability targets and ESG-related policies seek to address their expectations to further foster relationships and to ensure the promotion of the success for all in the supply chain.
	COMMUNITIES	The benefits of DE&I initiatives to the communities in which we operate are noted by the Board when considering new policies and updates on initiatives in the Business. Living wage policies also create new long-term opportunities. When debating the 2026 sustainability targets, the Board was mindful of the potential impact on communities.
	EMPLOYEES	Utilising the insights from previous employee surveys, from the Designated Non-Executive for workforce engagement and from the Great Place to Work Surveys, the Board recognises the importance that DE&I initiatives have for our employees and their opportunities in the Group as well as maintaining the desired culture. The Board is mindful that employees are proud to work for a Company that maintains high standard of business conduct and the various progressive ESG changes in 2022 support their interests.
	ENVIRONMENT	The importance of continuing our positive progress in delivering against our sustainability ambitions and continuing to set challenging targets is well understood by the Board when considering our impact on the environment.
	SHAREHOLDERS	The Board is mindful of investor trends in relation to DE&I and sustainability. The importance of clearly communicating our targets, and our progress against these, in clear disclosures is understood and considered across all ESG-related decisions taken by the Board.
	Outcome – Noting all the feedback received from stakeholders and having appropriately considered the long-term potential impacts on the success of the Company, the Board approved the 2026 sustainability targets and the ESG-related policies.	
Pensions The Chair and Chief Financial Officer represented the Company on the joint working group (JWG) formed with the UK Pension Trustee (Trustee), which aims to de-risk the UK pension scheme (Scheme) by securing members' benefits in full through one or more insurance policies in the medium term. The Board received a number of updates, including the decision of the Trustee to purchase a c.£350m bulk annuity policy in December 2022. The Board has subsequently agreed on a mechanism to switch off/on the regular cash contributions to the Scheme, based on monthly estimates of the latest funding position and this gives rise to potential significant free cash flow benefits from lower or eliminated cash contributions if the Scheme remains fully funded on its technical provision basis.	EMPLOYEES	The Board and the JWG understand the importance of progressively de-risking the Scheme to current and future pensioners.
	SHAREHOLDERS	The benefits of lowering the risk profile of the Scheme together with the potential significant free cash flow benefits align with shareholders' desire for long-term sustainable growth.
	Outcome – The purchase of the bulk annuity policy partly de-risks our UK defined benefit scheme by fully funding all financial and demographic risks for approximately 20% of scheme liabilities. On a medium term basis and when market conditions permit, we aim to remove the Scheme from the Group's balance sheet in a cost effective manner.	

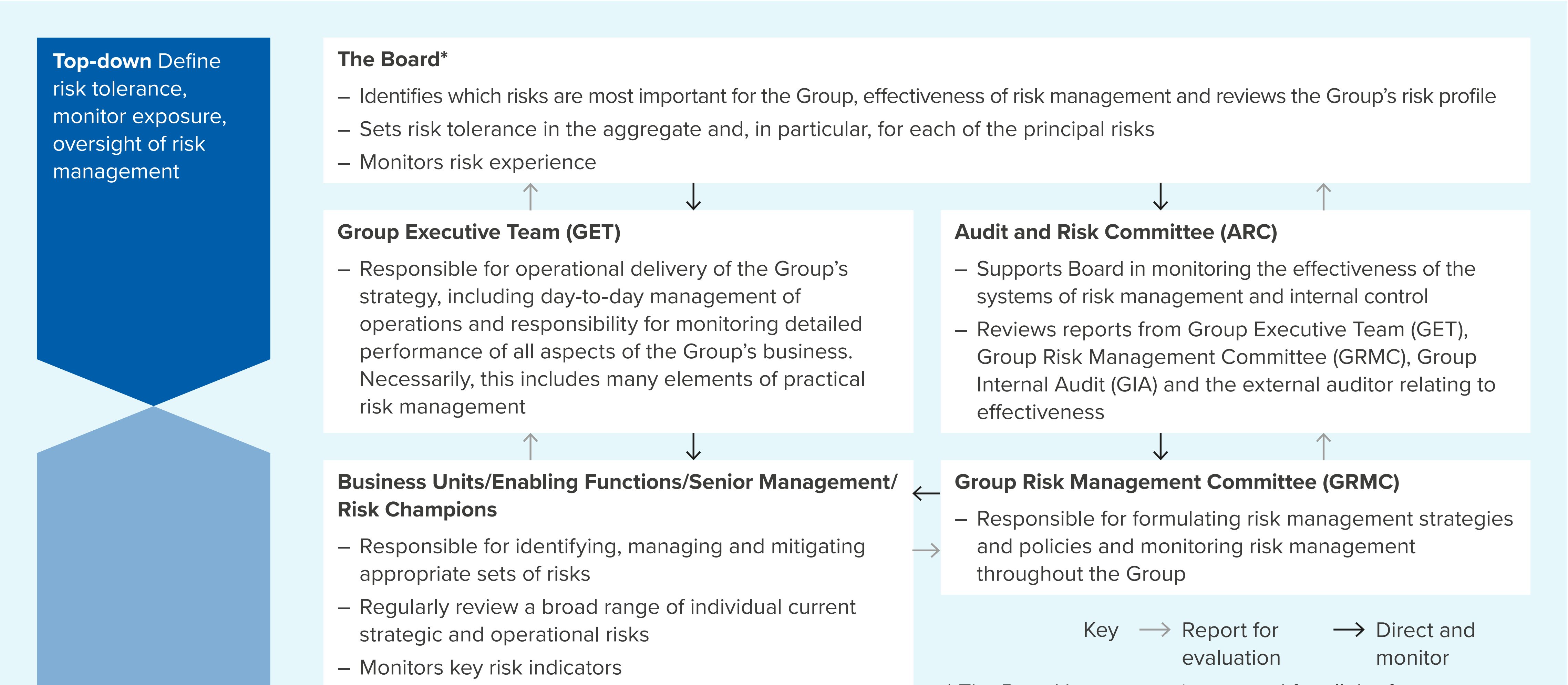
Principal risks and uncertainties

Better business outcomes are the result of effective risk management.

Our approach and governance

Having an effective, pragmatic and robust approach to risk management is more important than ever during a period of unprecedented external volatility, coupled with a period of transformational change internally. We focus on effectively identifying, assessing, monitoring and, where appropriate, eliminating or managing as well as leveraging risks and related opportunities that might impact our current or future performance and/or our reputation. In 2022, our established risk management framework continued to facilitate the evolution of policies, controls and informed business and strategic decisions to change with the evolving internal and external landscape and needs of the business. The Group's ongoing insurance programme is also kept under review to ensure this continues to be refined each year.

The Board has overall responsibility for determining the nature and scope of the Company's principal and emerging risks, 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 controls. It has delegated responsibility for the latter to the Audit and Risk Committee (ARC). The Group Executive Team (GET) is responsible for day-to-day monitoring and management of risks that impact the business. A summary of risk management responsibilities is set out below.



* The Board has appropriate regard for all the factors set out in S172 of the Companies Act 2006 in its consideration of risk and other matters. You can read about this on pages 39 to 41 in the S172 Statement.

During 2022, the membership of the GRMC was updated and now comprises all members of the GET. This allows risk assessments and discussions to be undertaken at regular GET meetings as required. This provides a more agile and responsive approach. Changes to the risk profile, such as the required swift evaluation of the consequences to the business of Russia's invasion of Ukraine, are considered in real time with appropriate actions undertaken within the agreed timescale.

We aim to integrate risk management and controls holistically across the whole business, including in our new Footwear division, to appropriately focus our activities. The effectiveness of our risk management relies on embedding the correct behaviours as well as systems in the organisation. Our Coats Ethical Culture programme – 'Doing the Right Thing' – has continued in 2022, with sessions held in new as well as existing parts of the business. This is supported by our ongoing training and compliance initiatives, as well as an extensive range of communications.

Management and assurance of risks

The Board has recently comprehensively reviewed and refreshed the Group Risk Register. This sets out our risks (including our principal and emerging risks), our risk tolerance, the current risk trends and a summary of our approach to risk management.

Our well established and embedded risk tolerance structure is determined using four categories which are listed on the right. In setting risk tolerances, the Board has considered the expectations of its shareholders and other stakeholders.

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

We focus on understanding the risks, and their potential impacts, to appropriately mitigate and/or leverage risks and related opportunities and ensure any residual risks are acceptably within our risk parameters and do not impact business operations adversely. 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. The Board oversees the management and mitigation of the principal and emerging risks, while senior executive management oversee the management and mitigation of the key risks. Climate related risks are evaluated and managed through the same overall process as other principal risks.

Principal risks and uncertainties cont.

During 2022, the Board, ARC, GET and GRMC considered presentations from senior management that included a holistic view of risks, including principal risks, and gave input on the steps planned to mitigate these risks. For example, there were country specific deep-dives as well as deep-dives into Apparel, Footwear and Performance Materials. There were also regular updates on the progress in the Strategic Projects and acquisitions/divestments presented at Board meetings, which all included an analysis of associated risks and opportunities, including principal risk considerations. Assessing risk dynamically as part of discussions on operational or strategic matters allowed likely impacts and possible mitigations to be appropriately deliberated. The risks were 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 could be taken. The ARC, and then Board, also reviewed the effectiveness of the Company's risk management and internal controls. You can read more about this in the ARC report on page 74. Additionally, the Board receives regular reporting from the Group CEO/GET on health and safety, sustainability, people, performance, M&A and legal and environmental matters. There are also standalone risk presentations when appropriate and one such example is the deep dive into cyber security presented to the ARC during the course of the year.

Based on the principal and key risks of the organisation, our 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. GIA reviews the Group Risk Register and local risk registers from the relevant management committees on a quarterly basis. This review includes an assessment of the risk management practices such as the frequency and adequacy of the regional risk management committee meetings, the risks identified and discussed, and the completion of the actions contained in the local risk register. GIA also undertakes a periodic horizon scanning of risks and this is discussed regularly at the GRMC/GET. The ARC considers the results of these assessments along with GIA's bi-annual risk questionnaire, which sets out business units' reports on exceptions or risks arising from operations. Topics covered in the risk questionnaire are appropriately aligned to principal and key risks, including feedback on health and safety, people matters, the environment and anti-bribery and corruption. These activities provide an assurance that risk management activities are carried out appropriately and consistently throughout the Group, and that the risks are reviewed and kept up to date by the respective stakeholders.

Following regular review of 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 covered further 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, with input from a range of key internal stakeholders, undertook a comprehensive assessment of the emerging and principal risks facing the Group, along with the risk trends and levels of risk tolerance for each of those risks. We also considered the new acquisitions and the new divisional structure when refreshing the Group Risk Register.

Change of risk description

Due to the ever-changing global risk environment, the following risks have been updated since the last report:

1. **Talent and capability risk** has been amended to refer more explicitly to diversity, equity and inclusion given the importance of this area.
2. **Risk of increasing customer expectations** has been amended to be more explicit in relation to product sustainability, given the importance of this area.
3. **Economic and geopolitical risk** has been amended to call out even more explicitly macroeconomic and global political uncertainty risk.
4. **M&A programme ambition risk** has been amended to make more explicit reference to the integration of the two recent acquisitions.

Change in risk trend

From increasing to stable	The risk trend for **talent and capability risk** has decreased from increasing to stable, due to the risk not being higher than 12 months ago and the various internal actions undertaken in 2022 as part of the Strategic Projects.
From increasing to stable	The risk trend for **climate change** has decreased from increasing to stable, due to the risk not being higher than 12 months ago and in light of the robust process and activities being pursued under the regular oversight of the GET and the Board.
From increasing to stable	The risk trend for risk of **supplier non-performance and/or unavailability and/or price increases of raw materials, labour and freight** has decreased from increasing to stable, due to the risk not being higher than 12 months ago and anticipated supply chain trends which are already starting to materialise.

Principal risks and uncertainties cont.

Our principal risks, along with a summary of the measures we have put in place to manage and mitigate them or leverage these risks and any related opportunities, 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	
M&A programme ambition risk in light of Group's increasing ambition in scale of its acquisition programme and its ability to source, satisfactorily acquire and integrate suitable targets, including two footwear acquisitions completed in H2 2022 **Risk trend** **Link to strategy** • Create value	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 focused project management resources during both execution and integration phases. Specific M&A risks and mitigations include the risk of 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 focused diligence to satisfy the Board that the commercial fundamentals are robust. 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. 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 2022 and, having acquired two strategic businesses (Texon and Rhenoflex), our primary focus remains the successful integration of these acquisitions into Coats, whilst continuing to build a robust pipeline of opportunities for future acquisitions.

Principal risk	Action/mitigation
Risk of ever-increasing **customer product and sustainability expectations** and Group's continuing ability to **meet and exceed those expectations** as part of its strategic growth and sustainability ambitions **Risk trend** **Link to strategy** • Accelerate profitable sales growth • Create value	For customers across all industries, 2022 was an unprecedented year of market volatility, uncertainty, and complexity. Expectations of speed to market, productivity, innovation, quality, reliability, and sustainability developed and changed rapidly through the year. Coats continued to leverage its market leadership, customer relationships and global footprint to meet and exceed those expectations. We continue to leverage our well-established lines of communication with customers to gain deep and valuable insights, and to anticipate trends that have the potential to change our industry in the long term. We utilise various methods to engage with manufacturers, brands and OEMs as well as customer and industry stakeholders, influencers and decision-makers, including surveys, calls and workshops. Considering and responding to the outcomes of these daily interactions result in our delivery of superior customer value. In 2022 we have met customers' innovation and sustainability needs by launching 17 new products across Apparel, Footwear, and Performance Materials divisions, as well as continuing our focus on recycled solutions. Our acquisitions of Texon and Rhenoflex provided the opportunity for us to offer enhanced and synergistic solutions, including new levels of innovation and sustainability. For example, Texon's ProWeave allows us to enhance our partnerships with brand customers. The demand for increased personalisation and customisation continues and is a focus in our innovation. The addition of Rhenoflex's Rhenoprint 2.0 technology to our portfolio enhances our offer to customers in this area, including reducing waste and increasing productivity. Coats Digital's FastReactPlan was selected by a large Chinese apparel manufacturer to transform its production processes, enabling them to respond with agility to complex order requests and improve on-time deliveries. 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 continue to demand increased performance from the materials they use, and our new personal protection yarn ranges address these customer needs. Our new sustainability targets for the period 2023-2026 include energy, materials, water, waste and people goals, in line with customer expectations. Our Sustainability team continue to collaborate and engage with customers across the globe to deepen their understanding of demand trends and successfully meet and exceed expectations as evidenced by the significant increase in sustainable product sales and the development of new products to progress the industry circularity agenda. Sales of EcoVerde continued to grow during the year and we supported a major European retailer in the launch of a new sportswear brand by supplying high quality recycled threads. We were able to flex our broad geographic manufacturing footprint to allow us to meet customer requirements for speed of production and delivery in the event of local disruption, a key differentiator of the business. During the year we utilised our total Asian manufacturing footprint to maximise service across markets in China that were experiencing ongoing impacts from Covid to meet increased demand during the peak season. We also expanded our manufacturing capacity of a specialised thread product for a world-leading retailer to allow them to fast-track productions of a new innerwear range.

Principal risks and uncertainties cont.

Principal risk	Action/mitigation
1. STRATEGIC cont.	
Risk of failure to attract, retain and develop diverse and inclusive set of **talent and capability** given business changes, growth in new areas and labour availability challenges. **Risk trend** ▭ **Link to strategy** • Accelerate profitable sales growth • Transform the business • Create value	As a result of significant macroeconomic volatility, 2022 has seen critical labour shortages and specific skill gaps in some labour markets where Coats operates – particularly the US, India and China – which have become increasingly competitive. 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 engaging and developing talent continued in 2022. Following our successful switch to 100% online learning in 2020, we delivered more than 95,000 hours of training to our employees in 2022 through a variety of training platforms. We added new elements to our suite of learning programmes including Manager Excellence, which focuses on critical manager skills through short, relevant sessions of an hour every month for 12 months. In order to further engage our employees we launched a Global Recognition Program called 'Applause' with 8 programs to recognise employees at all levels of the organisation both globally and locally. Recognising that a sense of belonging contributes to a great place to work, we launched our 'Coats for All' initiative, bringing all our diversity initiatives across the world under one umbrella and brand. The gender diversity initiative under the name of 'Coats for Her', with five programs to develop and nurture our female talent, further engaged our colleagues. A Global Job Vacancy Bulletin ensured transparency of vacancies to allow development of talent and capability. Whilst ensuring engagement and career development of Coats employees, we actively monitored the Coats markets to ensure payment of living wage for all our employees to receive a wage that is sufficient to afford a decent standard of living in their country or location. We also closely monitored the inflation situation and made interventions where required. As part of our employee listening strategy, which provides an integrated approach to understanding the overall employee experience, we continued surveys during 2022 as well as considering the insights from the Designated Non-Executive for Workforce Engagement. Through our Future of Work survey we listened to what our employees want from a workplace post-pandemic. As a result of the outcomes, we implemented flexible work policies to continue engaging our employees. A Future of Work leadership guide provided our managers with tips and tricks on how to engage employees in this new hybrid world of work. Through the Great Place to Work survey we heard the voice of over 14,000 of our employees and were proud that 86% of our employees worked in a certified 'Great Place To Work'. The Great Place To Work Trust Index score increased from 79% to 85%, showing the increased engagement of the workforce. The survey also allowed us to understand how we can further improve the work environment for our employees. Whilst we continued to deliver key employee health and wellbeing programs at a local level across Coats, we will be focusing on a global wellbeing program called "Energy4Performance" addressing all four health zones: mental, physical, emotional and social to further retain our employees.

Principal risk	Action/mitigation
2. EXTERNAL	
Economic and geopolitical risk arising from significant macroeconomic and demand uncertainty – across both key Asian and developed markets – including risk to free trade conventions – as well as global inflationary pressures and ongoing geopolitical developments **Risk trend** ↑ **Link to strategy** • Accelerate profitable sales growth • Transform the business • Create value	2022 was a year of significant macroeconomic uncertainty with continued higher than normal inflation evident across all areas of the business. We have taken swift actions to counter the continued high inflation through early and decisive strategic pricing actions and a combination of activities (including the execution of the Strategic Projects, acquisitions and divestments that supplemented self-help initiatives including productivity improvement and cost control measures). We have also focused on volume and share gain in addition to taking strategic pricing actions where appropriate. Supply chain disruptions have been managed through leveraging our global footprint, long term relationships with global suppliers and adjusting our inventory holding as needed (see further actions referred to in Supply risk on page 47). The Group continued to conduct appropriate financial forecasting and modelling to track liquidity and assess foreign exchange exposure. We utilised our prior experiences of managing in a downturn, including creating appropriate contingency plans for a number of scenarios across our geographies. The ongoing impacts from the Covid pandemic that continue to manifest and impact both the supply chain and labour, particularly in China, are monitored with the previous learnings being utilised. We monitor geopolitical risks and take action where appropriate. The Russian invasion of Ukraine resulted in swift decision making by the Board and GET to ensure our people were safe and that our operations were closed where necessary. The wider implications of the war, including on oil/energy price and supply availability are considered and managed via our Supply chain relationships and our global operational footprint. Overall, our strategic focus has been on innovation, sustainability and automation to manage the Group through a volatile, uncertain, complex and ambiguous environment and achieve our strategic goals in 2022.

Principal risks and uncertainties cont.

2. EXTERNAL cont.

Principal risk	Action/mitigation
Cyber risk Risk of **cyber incidents** leading to corruption of applications, critical IT infrastructure, compromised networks, operational technology and/or loss of data. **Risk trend** **Link to strategy** • Transform the business	2022 was a year of transition with changes in our internal talent adding to our in-house capabilities and the consolidation of certain systems to allow us to introduce more protective systems. We changed to a new provider for phishing simulations and user awareness and training materials. These improved training materials and better insights of user habits from phishing tests enable us to target users' specific education needs and in turn give Coats greater protection from online threats. Our Managed Detection and Response (MDR) service was replaced with a more robust device protection system and service, which includes a tier-1 Security Operations Centre (SOC) and network discovery capability. Outbound internet traffic filtering through the 2021 SASE solution enables us to monitor traffic from our devices to identify and block malicious activity. We proactively strengthened and matured existing controls, including bringing support for some systems in-house rather than by third parties. This enables our team to provide a better level of support with greater agility. For our key systems we make daily backups to an alternative cloud provider to ensure we do not have a single point of failure, and for these key systems we utilise the layers of protection provided by Microsoft. For 2023 we have key strategic projects planned including firewall enhancement across all global locations and secure reconfiguration of our networks to reduce risk and mitigate potential attack. As Coats continues to grow as a digital organisation, and supporting our strategy to Accelerate and Transform, there will be huge benefits to be gained along with significant digital security and strategy risks. Moving forward we will focus on continuing to ensure the right level of governance, cyber personnel, technology, processes and training across our business to minimise these risks, working on a principle of security by design at all times.

Principal risk	Action/mitigation
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. **Risk trend** **Link to strategy** • Accelerate profitable sales growth • Transform the business • Create value	The GET, through the Group Sustainability function, is responsible for overseeing the reporting of environmental data by the business, and driving the sustainability strategy and climate change risk management processes. The Board and Sustainability Committee provide strategic oversight and monitor the execution of the Company's sustainability strategy and initiatives. The ARC reviews the processes for the reporting of environmental data externally. We manage a detailed register of climate related risks and opportunities which are assessed based on their level of materiality and impact over short, medium and long term time horizons and for those of greatest impact we define and implement mitigating actions. Through 2022 we have further progressed work on climate change risk analysis, including a review of our core scenario database which remains unchanged, and building on our review of physical risks with detailed bottom up analysis for those sites identified at highest risk of coastal or riverine flooding. As a result of this further analysis, we have determined that the physical flooding risks are marginally lower than our previous assessment and more granular details are included in our Taskforce on Climate-related Financial Disclosures (TCFD) report. As a major identified risk we have also reviewed and updated our model for future carbon taxes. As during 2021, risk and opportunity analysis, quantification and mitigation has been carried out using the TCFD Recommendations as detailed in "Recommendations of the Task Force on Climate-related Financial Disclosures", 2017, with use of additional guidance from "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures", 2021. Work progress was reported to the GET on a quarterly basis and went to the ARC for review in both February and December 2022. A copy of our 2022 TCFD disclosures, which set out the implications of climate risk over the short, medium and long term, can be found in the **TCFD Report** (**www.coats.com/sustainability**). As a result of this, our current most significant transitional risk remains linked to the potential introduction of carbon emission taxes and this is detailed in our TCFD disclosures. Following the submission and approval of our near term (2030) Science Based Targets (SBTs) for emissions reduction under the 1.5°C pathway in February 2022, we have now submitted our long term Science Based Targets for Net Zero emissions by 2050 and await their approval. Delivery of the SBT carbon emission reductions will clearly have a very significant mitigating effect on any carbon tax regimes that may potentially be introduced. Progress has been made in transitioning to renewable supplies through 2022, however country level energy market regulation could present a risk of fully achieving the planned rate of progress in the coming few years. Priority focus will be given to our units with highest energy consumption, with Renewable Energy Certificates purchased to compensate in areas where full transition is not possible. You can read more about our new sustainability targets in the **Sustainability Report** (**www.coats.com/sustainability**). During the due diligence processes for the Texon and Rhenoflex acquisitions, initial assessments of the impact of their operations on our climate commitments were undertaken. In both of the key aspects relating to climate commitments we found that they were on a similar trajectory to Coats (though not committed to SBTs) and had made good progress to date on material transition and emissions reduction. During 2023 they will be fully incorporated into our SBTs by re-baselining back to 2019.

Principal risks and uncertainties cont.

Principal risk	Action/mitigation
2. EXTERNAL cont.	
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. **Risk trend** **Link to strategy** • Accelerate profitable sales growth • Transform the business • Create value	The Group continues to conduct regular scenario analysis and continuity planning in relation to each of our key raw materials and dyes, as well as labour and freight, to assess what counter measures can be put in place if certain events were to occur. During 2022, there was a continued impact of the Covid virus on global supply chains particularly in China, limiting availability of certain feedstocks and raw materials. This, coupled with the volatile global economic environment, has resulted in demand fluctuations and the withdrawal from the market of some suppliers. There was also higher than normal inflation across raw materials, freight, labour and energy. To mitigate these, we continue to assess our global stocking policy for strategic raw materials, enter into discussions with key suppliers ahead of any anticipated shortages to secure the required volumes and destocking where downturns are expected. We also have expanded our supplier base where necessary. We monitored regulatory developments and utilised our global footprint to respond to changing sourcing requirements. Robust assessments of financial performance of key suppliers and evaluation of suppliers' own risk management plans are undertaken, and our dependency on key suppliers and raw materials was reviewed frequently. From August 2022 onwards, supply concerns on most raw materials were viewed to have eased. We continue to work closely with our key suppliers to ensure our requirements are met and rely on systems and tools, such as the supplier portal, to manage costs. Coats' scale and global footprint offers security to both brands and contractors.

Principal risk	Action/mitigation
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. **Risk trend** **Link to strategy** • Transform the business	During 2022 we retained very tight focus on risk mitigation areas that align to our 2022 sustainability targets. This meant that we made continued progress on reducing energy intensity through our energy monitoring system pilot, and accelerated our transition to renewable electricity and performed strongly in relation to Zero Discharge of Hazardous Chemicals (ZDHC) standards. Progress on waste prevention and reduction was accelerated in 2022 with many circularity initiatives introduced, particularly in paper, cardboard and plastic packaging. Environmental targets continue to be core to our sustainability strategy and we have now developed 2026 targets which will ensure that this remains central to the business. Our 2026 targets include further reduction in energy intensity, with significant focus on our energy transition, effluent standards, increased water recycling and zero waste to landfill. Further details on our sustainability strategy can be found in our annual **Sustainability Report** (**www.coats.com/sustainability**) which is published at the same time as this Annual Report. We continue to track and implement new and updated Environment, Health & Safety (EHS) legislative requirements using a subscription based environmental system, thereby enhancing our performance in relation to EHS legal requirements. We also utilise a permit management system for management of all environmental permits and licences held in each country we operate in. Our environmental incident management system ensures that we have a consistent and transparent way of managing any 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 ZDHC limits. Following our acquisitions of Texon and Rhenoflex in 2022, we have commenced the program of aligning those business units to the Coats environmental policies and procedures, and use of common systems. During the due diligence their environmental performance was assessed as fully as possible, and no concerning issues were identified. 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.

Principal risks and uncertainties cont.

Principal risk	Action/mitigation
3. OPERATIONAL	
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. **Risk trend** **Link to strategy** • Transform the business	The Board continues to receive and discuss with management – as a priority at each Board meeting – detailed reviews of health and safety (H&S) performance and monitoring of progress against established annual H&S targets and objectives. Senior management and employees throughout the Group likewise remain closely focused on creating an injury-free work environment through the identification and remediation of hazards and training and behavioural change programmes. Covid has continued to be an area of focus in 2022, but at a much lower level than in the two previous years. Our units performed commendably in maintaining appropriate levels of workplace controls and were able to protect employees from workplace infection and maintain operations. With the significant increase in Covid cases in China towards the end of 2022 as societal controls were lifted, we immediately re-introduced tighter workplace controls to protect employees. We continued pursuing our Journey to Zero safety strategy that was launched in 2019. We maintain a consistent focus on proactive and preventive actions as well as leading indicators, as well as full investigation of any incident or near miss. We maintained broadly the same level of employee training hours as in 2021 (30 hours vs 29 in 2021). All of our proactive, preventive actions translated into the following results for 2022: – 11% reduction in work-related recordable injury rate (0.40 vs 0.45 in 2021) – 27% reduction in lost time case rate (0.24 vs 0.34 in 2021) – 36% reduction in days lost per lost time injury (13 vs 21 in 2021) – 24% reduction in first aid case rate (2.27 vs 2.97 in 2021) At the end of 2022, to align our H&S management structure to the new business structure, and recognising the significant progress made in the last few years, we embedded much of the global team more directly into the business Divisions where they will be better able to work closely with units to maintain the improvement momentum. Our slimmer global team will work with divisional and geographic H&S leaders on global development and delivery of global strategies. During 2023 we will continue our Journey to Zero strategy and will be revising and updating our safety management system. We will also be ensuring that our new acquisitions made in 2022 are aligned with our H&S policies and procedures. We have also detected a marginal increase in commuting-related incidents in 2022 that we believe is related to a post-Covid behavioural shift of employees from public to private transport and we will be enhancing still further our focus on developing awareness and mitigation of commuting risks amongst our employees.

Principal risk	Action/mitigation
Bribery and anti-competitive behaviour – risk of breach of anti-corruption law or competition law, resulting in material fine and/or reputational damage. **Risk trend** **Link to strategy** • Accelerate profitable sales growth • Transform the business	The Group continues to maintain clear and well-publicised policies and processes, including on anti-bribery and corruption and anti-competitive behaviour, which sit alongside and interact with policies and procedures covering a number of other ethics issues, such as the Code of Business Conduct, Gifts and Entertainment Policy, Ethics Code and Supplier Code. These various policies and procedures apply not only to Coats but also to Coats' relations with partners, contractors and suppliers. These policies are reviewed and updated annually, with the most recent review being completed in December 2022. The policies are reinforced through contractual terms and through a comprehensive Supplier Code. The Supplier Code and onboarding process contains initial due diligence processes (through an automated vendor data management system), onboarding, training, ongoing compliance monitoring and auditing. The GET, comprising key business and functional leaders, regularly considers a range of ethics risks (including closely monitoring key risk indicators for those risks), legislative and regulatory developments, any issues or trends identified from the Group's internal audit function and mitigation plans. GIA conducts a dedicated risk questionnaire which covers anti-bribery and corruption and anti-competitive practices. The risks and mitigation plans are also considered at division level during regular local risk management meetings. Coats implements an extensive annual and new-joiner training regime for its staff, with enhanced training for managers and customer-facing and procurement staff. Specific training regimes were also implemented for the staff who joined Coats as part of the Rhenoflex and Texon acquisitions. This training regime includes compulsory annual training in a range of areas, including anti-bribery and corruption and anti-competitive behaviour. Refreshed online ethics training, alongside the ongoing self-certification testing regime, was released in 2022. Coats also maintains an extensive database of relevant training materials and guidance on its web portal and carries out face-to-face training and regular communications through a range of channels, including through leveraging the support of its global ethical culture champions network. The Group actively maintains a whistleblower system through a dedicated "Speak Up" inbox and 24/7 whistleblower hotline which is maintained by an external provider. The whistleblowing system enables 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, is publicised through an ongoing Ethical Culture Campaign which operates at a Group and local level. An independent review of the Group's whistleblowing policy and associated processes is currently being conducted to ensure these continue to align appropriately with best corporate governance practice.

Principal risks and uncertainties cont.

Principal risk	Action/mitigation
4. LEGACY	
Lower Passaic River legacy environmental matter Detail of the Lower Passaic River legacy environmental matter can be found in note 28 on page 151.	The Board continues to monitor developments very closely and oversees the strategy in relation to the Lower Passaic River proceedings.
Risk trend	
Link to strategy • Transform the business	

Key risks

In addition to these principal risks, the Group has also identified a number of key risks. These are monitored by the GET, 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 list of key risks also includes a number of potential disruptive risks arising from, for example, new competitors and new technology. The GET and Board, as appropriate, continue to monitor these potential disruptive risks and also the opportunities that these may present.

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.

Modern Slavery

During the year, the Board approved the Group's Modern Slavery Statement. We remain committed to addressing the potential risks of modern slavery and human rights abuses, to acting in an ethical manner with integrity and transparency in all business dealings, and to investing in the creation of effective systems and controls across the Group to safeguard against adverse human rights impacts.

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 2025.

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 February 2023, have maturities which range from approximately nineteen months to c7 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 (2023–2025). The Medium Term Plan represents a common process with standard outputs and requirements at the Group level. The Board reviews and challenges 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 consider that the three year period considered by the Medium Term Plan reflects an appropriate period over which its business and investment cycles, as well as its prospects, can be considered. The Medium Term Plan and the severe but plausible downside scenarios (as set out below) both consider the implications of risks around sustainability and climate change over the three year assessment period. Longer term implications and prospects, including both risks and opportunities, of climate change have been considered as part of the Task Force on Climate-related Financial Disclosures report.

The Directors have taken into account the Group's current position and the potential impact of the principal risks set out on pages 42 to 49 as well as other risks that could crystallise during the medium term. 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 42 to 49 as well as other risks that could crystallise during the medium term.

After assessing the potential impact of the principal risks, the specific areas considered as part of the severe but plausible scenarios include:

- Sales growth is lower than expected throughout the assessment period, with reduced margins and cash generation. Lower sales growth could result from a further prolonged Ukraine war, Covid lockdowns, continued supply chain challenges, inflation and current demand uncertainty, as well as Coats being unable to meet customer expectations (including sustainability targets);
- Benefits from strategic projects are lower than expected;
- Benefits from synergies, following the Texon and Rhenoflex acquisitions, are lower than expected; and
- Supply chain challenges cause unavailability and/or price increases of raw materials, labour, freight and/or logistical challenges causing major disruption to Coat's supply chain.

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 between 2024 and 2030 and the revolving facility matures in 2024, with the ability for two one-year extensions. It has been assumed that the US private placement borrowings and the revolving facility that mature before 31 December 2025 are successfully refinanced during the assessment period;
- 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.

As part of the going concern assessment, the Directors also considered 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. As set out on page 119, the Directors consider the likelihood of the condition in the reverse stress test occurring to be remote.

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

Continuing operations	2022 $m	2021[3] $m	2022 vs 2021: 2021 CER[1] $m	Inc %	CER[1] inc %	Organic[4] inc %
Revenue						
By segment						
A&F	1,163	1,048	988	11%	18%	9%
PM	420	399	373	5%	13%	13%
Total	**1,584**	**1,447**	**1,361**	**9%**	**16%**	**10%**
By region						
Asia	912	850	826	7%	10%	6%
Americas	341	314	311	9%	10%	9%
EMEA	331	283	225	17%	48%	25%
Total	**1,584**	**1,447**	**1,361**	**9%**	**16%**	**10%**
Adjusted operating profit [2]						
By segment						
A&F	201	171	162	18%	24%	18%
PM	34	27	23	26%	47%	47%
Total adjusted operating profit	**235**	**198**	**185**	**19%**	**27%**	**22%**
Exceptional and acquisition-related items	(54)	(20)				
Operating profit	**181**	**178**				
Adjusted operating margin[2]						
By segment						
A&F	17.3%	16.3%	16.4%	100bps	90bps	140bps
PM	8.1%	6.8%	6.2%	130bps	190bps	190bps
Total	**14.8%**	**13.7%**	**13.6%**	**120bps**	**120bps**	**150bps**

1 Constant Exchange Rate (CER) are 2021 results restated at 2022 exchange rates.
2 On an adjusted basis which excludes exceptional and acquisition-related items.
3 Restated to reflect the results of the Brazil and Argentina business as a discontinued operation.
4 Organic on a CER basis excluding contributions from Texon and Rhenoflex acquisitions

2022 Operating Results overview

Group revenue of $1,584 million increased 9% on a reported basis, 16% on a CER basis (which includes the initial impact of the Texon and Rhenoflex acquisitions), and 10% on an organic basis. This was driven by pricing actions which fully offset ongoing heightened inflationary pressures, market share gains and a strong market recovery during H1. As anticipated, year-on-year performance slowed during the second half, in part due to the 2021 comparator strengthening, as well as a softening in demand due to macroeconomic factors, with some destocking. This was most noticeable in Apparel markets in Q4 but also impacted Footwear towards the end of the year.

Group adjusted operating profit of $235 million increased 27% on a CER basis (2021: $198 million reported), with operating margins up 120bps to 14.8% (2021: 13.7%). On a reported basis operating profit was $181 million (2021: $178 million) after $54 million of strategic project costs and acquisition-related items.

Adjusted earnings per share ('EPS') for the year increased by 14% to 8.2 cents (2021: 7.2 cents) as operating profits grew significantly due to the strong trading performance and the delivery of savings from the strategic projects, alongside a reduction in the underlying effective tax rate. There was some offset from higher interest costs. Reported EPS of 4.8 cents (2021: 5.8 cents) was 18% lower, including the impact of exceptional and acquisition related items.

Apparel & Footwear ('A&F')

Coats is the global market leader in supplying premium sewing thread and footwear structural components to the A&F industries. We are the trusted value-adding partner, providing critical supply chain components and services, and our portfolio of world-class products and services exist to serve the needs and requirements of our customers and brand owners. Coats is also the global market leader in footwear structural components. Our highly engineered products have strong brand component specification, primarily targeted at the attractive athleisure, performance, and sports markets. The combination of Coats, Texon and Rhenoflex in this market has enabled us to accelerate our innovation and sustainability.

Our A&F business benefited from market share gains and strong pricing/mix fully offsetting inflationary pressures, along with post-Covid industry inventory restocking, buffer buying in the face of supply chain disruption and continued underlying market recovery during H1. As anticipated, year-on-year performance slowed during the second half, in part due to the 2021 comparator strengthening, as well as a softening in demand due to macroeconomic factors, with some destocking. This was most noticeable in Apparel markets in Q4 but also impacted Footwear towards the end of the year. Despite these industry dynamics we have continued to leverage our key customer relationships, strong sustainability credentials, market-leading product ranges and technical services, and our flexibility and agility in a turbulent supply chain environment.

Operating review cont.

Revenue of $1,163 million (2021: $1,048 million) reflected strong growth of 18% on a CER basis (11% reported), which included the initial contribution of the Texon and Rhenoflex acquisitions, which were acquired in July and August 2022 respectively. Excluding acquisitions, organic growth was 9% for the full year with H2 adversely impacted, following the exceptional H1 (organic growth 21%), as a result of the changing market conditions described above, and strengthening comparators. The performance in the year reflects the flexibility of our global footprint and our ability to support customers during the Covid recovery and ongoing uncertainty in global supply chains. Our global accounts programme, in which we dedicate customer relationship resources to our key brands and retailers, saw significant new customer and programme wins, which contributed to further overall share gains; this has included a new programme win with a major European retailer in relation to a sportwear brand launch where we are the nominated recycled thread supplier. We have also been able to further leverage our technical advisory and fast sampling service to deliver notable further sales successes in a number of Asian markets.

All of our geographic regions (Asia, Americas and EMEA) benefited from positive end market sentiment during H1, led by our ongoing ability to supply product. Market trends towards Sports and Athleisure, as well as casualisation, continued to accelerate. In addition, increasing online activity, a shift towards premium products and supply chain digitisation trends also continued during the year. Supplier consolidation, nearshoring and the need for agility were also prominent trends and, unsurprisingly, customers continue to place increasing emphasis on their sustainability agendas.

Despite the slowdown in the second half of the year, largely driven by macroeconomic factors and resulting destocking, these longer-term trends remain and are opportunities to underpin further accelerated medium-term growth and share gains.

All A&F's sub-segments delivered organic revenue growth in 2022; A&F thread was up 9%, Zips and Trims was up 16%, and Coats Digital was up 3%.

Adjusted operating profit of $201m (2021: $171m) increased 24% vs 2021. Adjusted operating margin was up 90bps to 17.3% (2021: 16.4% at CER). Excluding the marginally dilutive initial impact of acquisitions (which are expected to be accretive, post synergies), A&F margins were up organically 140bps year-on-year to 17.8%. This was as a result of excellent commercial and operational delivery, pricing and procurement actions fully offsetting heightened inflationary pressures, alongside strategic project benefits and general cost discipline.

Performance Materials ('PM')

We are experts in the design and supply of a diverse range of technical products that serve a variety of strategic end use markets. Building on over 250 years of leadership in thread, we incorporate specific design features to be able to provide highly engineered solutions for our customers. The segment operates across Personal Protection, Composites and Performance Threads. Personal Protection offers multi-hazard industrial applications for industrial, energy, firefighting and military wear.

Composites provides products and solutions for fibre optic cables and oil & gas piping sectors and light weighting solutions for automotive components, while Performance Threads has applications in a range of sewn products like safety-critical airbags and seat belts, outdoor goods, household products like bedding and furniture, hygiene-sensitive consumer goods like feminine hygiene and tea bags.

From 2022, the Group has disclosed PM in three sub-segments. Personal Protection (in 2022, 43% of divisional revenue), Composites (18% of revenue) and Performance Thread (39% of revenue). The medium-term growth rates expected for each sub-segment are high single digits for Personal Protection, low double-digits for Composites, and global GDP growth for Performance Thread. The overall medium-term growth target for the division is a mid-high single digit growth CAGR (6-9%), as in the Revised Segmental Reporting section below.

There were new customer wins across all sub-segments, such as the nomination for our FlamePro Splash Protect fabric from a leading US-based manufacturer of protective garments for the molten metal industries and from an energy and data management provider for our extruded coated nylon, composite products used in cables for the energy and automotive segments.

Overall, PM revenue grew 13% to $420 million (2021: $399m) on an organic and CER basis (5% on a reported basis), which was driven primarily by price increases to offset inflation. Revenue growth performance vs 2021 was underpinned by strong demand in Composites (up 21%) despite some H1 supply chain issues in EMEA, and Personal Protection (up 19%), again due to strong demand but also operational improvements in the US yarns business.

Performance Thread increased 4% vs 2021 despite weaker consumer demand in its Household and Recreation markets, and ongoing labour availability issues in the US. These operational constraints are being addressed via our strategic projects. In H2, overall demand has remained resilient across end markets.

Adjusted operating profit increased 47% on an organic and CER basis to $34 million (2021: $27 million). At an adjusted operating margin level, PM margins were up on an organic and CER basis by 190 bps to 8.1% (2021: 6.2%). While still impacted in the US by labour availability issues and labour inflation, US margins have improved significantly due to the positive impact of actions taken. Excluding the US business, PM margins were c.12%, slightly lower than 2021 (13%), as a result of specific temporary supply chain disruption issues within EMEA in H1, which have now been resolved.

Adjusted operating profit increased 47% on a CER basis to $34 million (2021: $21m) and at an adjusted operating margin level, PM margins were up 190 bps to 8.1% (2021: 6.2% at CER). PM margins continued to trend upward during the year, and while still impacted in the US by labour availability issues and labour inflation, US margins have improved significantly due to the positive impact of the actions that have started to take effect in the year. Excluding the US business, PM margins were c.12%, slightly lower than 2021 (13%) as a result of specific temporary supply chain disruption issues within EMEA in H1, which have now been resolved.

Operating review cont.

Revised segmental reporting – from 1 January 2023

As mentioned above, in July and August 2022 we completed the acquisitions of Texon and Rhenoflex respectively. This has made us the global leader in footwear components, alongside our existing global leadership position in industrial thread.

As a result of these acquisitions, and as announced at our Capital Markets Day in 2022, our new organisational and reporting structure, effective 1 January 2023, is comprised of three divisions; Apparel, Footwear and Performance Materials. The new Footwear segment will consist of the existing Coats footwear thread business (currently part of A&F), and the acquired footwear components businesses, Texon and Rhenoflex.

We will report our financial results on the new segmental basis from our HY23 results.

As announced at our 2022 Capital Markets Day, the medium-term sales growth CAGR for the new operating segments are anticipated to be 3-4% for Apparel, c.8% for Footwear, and 6-9% for Performance Materials, resulting in Group growth of c.6%. The goal for the Group 2024 adjusted operating margin is c.17%, comprising 15-16% for Apparel, >20% for Footwear, and 13-14% for Performance Materials.

Geographical performance

We saw strong revenue growth in all regions driven primarily by pricing actions, mix and positive end market sentiment during H1.

Our Asia revenue, 58% (2021: 59%) of Group, increased 6% CER to $912 million (2021: $850 million), despite some headwinds. While Vietnam and India delivered strong growth, following Covid disruption in 2021, the market in China was impacted by Covid disruption during H1 2022. Overall, Asian markets experienced significant demand and supply volatility throughout the year, with our performance underpinned by agility, customer focus and self-help initiatives.

Our Americas revenue, 22% (2021: 22%) of Group, increased 9% CER to $341 million (2021: $314 million), with a particularly strong performance in Colombia and Central America. In addition, our US Personal Protection business performed well, with strong demand and operational delivery improving significantly.

In EMEA, 21% (2021: 20%) of Group, revenue increased 25% CER to $331 million (2021: $283 million). This was driven by positive momentum in PM in telecommunication composites and transportation, as fibre optic sales remained robust. In A&F, Zips saw strong demand. Organic revenue growth also benefited from the weakening Turkish Lira, as we continued to price largely in USD, as well as from the adoption of hyperinflation accounting in that country.

In the Americas and EMEA, we also benefited from increased nearshoring, with customers bringing production closer to their end-markets, and this trend gathered momentum through the year.

Financial review

Revenues

Group revenue increased 9% on a reported basis and 16% on a CER basis. On an organic basis revenue increased 10%, which excludes the Texon and Rhenoflex acquisitions. All commentary below is on an organic basis unless otherwise stated.

Operating profit

At a Group level, adjusted operating profit increased from $198 million in 2021 to $235 million (including acquisitions) and adjusted operating margins increased 120bps to 14.8%. The table sets out the movement in adjusted operating profit during the year.

	$m	Margin %
2021 adjusted operating profit	**198**	**13.7%**
Volumes impact (direct and indirect)	(34)	
Price/mix	128	
Raw material inflation	(60)	
Freight inflation	(10)	
Other cost inflation (e.g. labour, energy)	(48)	
Productivity benefits (manufacturing and sourcing)	22	
Strategic projects savings	20	
Other SD&A savings	16	
Others (e.g. FX)	(6)	
Contribution from Texon and Rhenoflex acquisitions	9	
2022 adjusted operating profit	**235**	**14.8%**
Exceptional and acquisition related items	(54)	
2022 reported operating profit	**181**	

In the first half of the year, there were volume tailwinds as a result of the significant demand recovery in the period. In the second half, as anticipated, we saw a slow-down, particularly in Apparel. The direct and indirect volume impact of this, together with the increasingly strong 2021 comparators (due to the exceptional demand conditions, which continued into H1 2022), resulted in a direct and indirect volume headwind in the year.

In part as a result of increasing oil prices in the latter part of 2020, and throughout 2021 and 2022, we experienced year-on-year inflationary pressures for a number of major cost categories, most notably raw materials, freight and other costs such as labour and energy. As in previous years, we were able to fully offset these headwinds, by means of productivity benefits and increased pricing. These inflationary pressures continued throughout 2022, albeit with some flattening out and price moderation in certain areas in the latter part of the year. There was early evidence of this, for example, in relation to some raw materials and freight.

Selling, Distribution and Administration costs have continued to be well controlled, despite ongoing inflationary impacts. These are below last year as we reduced our costs, particularly in the face of more challenging conditions in H2. We have also benefited from $20 million of savings in the year, in relation to our strategic projects announced in early 2022, and these are ahead of our initial expectations for the year. We have increased the total efficiencies we expect to deliver by 2024 by $20 million through expanding the scope of the projects, in particular focusing on our Asian operations, and we now expect to deliver a total of $70 million incremental benefits.

Our 2022 acquisitions, Texon and Rhenoflex, delivered a $9 million contribution to adjusted operating profit post-acquisition. This was in line with our acquisition business case, and we moved quickly in the year to deliver the anticipated synergies ($11 million total by 2024) with run-rate savings at the year-end of $3 million.

As a result of these factors, the Group's adjusted operating margins increased by 120bps to 14.8% on a CER basis (2021: 13.6%). Excluding the Texon and Rhenoflex acquisitions, the Group margin increased 150bps to 15.1%.

On a reported basis, Group operating profit (including exceptional and acquisition-related items) increased to $181 million (2021: $178 million). This includes exceptional items, and a breakdown is provided below. Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to above is on an adjusted basis.

Foreign exchange

The Group reports in US Dollars and translational currency impacts can arise, as its global footprint generates significant revenue and expenses in a number of other currencies. In 2022, this was a headwind of 7% on revenue and 8% on adjusted operating profit. These adverse translation impacts were primarily due to depreciation in the year in the Euro and the Indian Rupee and to the adoption of hyperinflation accounting in Turkey. At year-end exchange rates we expect a c.1% translation headwind for revenue and adjusted operating profit in 2023 (excluding any future hyperinflation impact, which cannot be forecast with accuracy).

Non-operating results

Adjusted earnings per share ('EPS') increased by 14% to 8.2 cents (2021: 7.2 cents) as operating profits grew significantly, increasing from $198 million to $235 million (due to the strong trading performance and the delivery of savings from the strategic projects). This was alongside a reduction in the underlying effective tax rate of 29% (2021: 30%). There was some offset from higher interest. Reported EPS of 4.8 cents (2021: 5.8 cents) was 18% lower, including the impact of exceptional and acquisition related items.

The increase in adjusted profit before tax was due to the increase in adjusted operating profit ($37 million increase). This was partially offset by the net finance charge which was $8 million higher year-on-year (see further details below). There was a small (c.0.1 cents) dilutive impact from the two acquisitions completed during the year, which is not expected to recur in 2023, as the business case and synergies are delivered.

Net finance costs increased to $30 million (pre-exceptional) (2021: $21 million). The key drivers were a $9 million increase in interest on bank borrowings due to increasing interest rates on the floating elements of debt, and additional interest on the $240 million acquisition facility taken out in July to fund the Texon acquisition. In addition, there was a $6 million adverse movement on foreign exchange, largely as a result of Sterling weakness towards the year end, when we hedge a number of costs and cash flows, including scheduled UK pension contributions. These were partially offset by a $4 million decrease in interest on pension scheme liabilities, as a result of an IAS19 basis surplus at 31 December 2021. There was also a $2 million credit due to the indexation of non-current assets in

Financial review cont.

Turkey as a result of the adoption of hyperinflation accounting.

The adjusted taxation charge for the year was $60 million (2021: $53 million). Excluding the impact of exceptional and acquisition-related items, the effective tax rate on pre-tax profit was 29% (2021: 30%). The reported tax rate was 37% (2021: 34%), after exceptional and acquisition related items.

Profit attributable to minority interests increased by 13% to $22 million (2021: $20 million) and was predominantly related to Coats' operations in Vietnam and Bangladesh, in which it has controlling interests.

Exceptional and acquisition-related items

Net exceptional and acquisition-related items before taxation were $55 million (2021: $20 million). These include strategic project costs of $31 million (of which $5 million are non-cash impairments) and acquisition-related items of $24 million.

Strategic project costs of $31 million relate to the commencement of a number of strategic initiatives during 2022; and primarily consist of severance costs of $22 million, non-cash right-of-use asset impairment charges in relation to UK and US office exits of $5 million, and legal/advisor/closure costs of $5 million, offset by a profit of $1 million from the sale of property. These significant actions have supported the acceleration of project benefits, as mentioned earlier, with $20 million of incremental adjusted operating profit delivered in 2022.

Acquisition-related items of $24 million consisted of the provisional amortisation charges from the newly recognised intangible assets from the Texon/Rhenoflex acquisitions ($8 million), related transaction costs ($13 million) and the amortisation of intangible assets acquired in previous acquisitions ($3 million).

Discontinued items

In May 2022, Coats completed the disposal of its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm.

As a result of the strategic exit from Brazil and Argentina, the operating results of these businesses prior to sale have been reported within discontinued operations during the current (2022 operating losses of $3 million) and prior years. This has resulted in an overall increase to the Group adjusted operating margin of around 50bps.

As a result of the transaction, we have disposed of $49 million of net assets (of which $45 million relates to working capital) for a cash payment to the purchaser and fees of $20 million. In addition, $15 million of historic foreign exchange losses have been recycled to discontinued operations. The Group's statutory profit of $7 million in the year (2021: $109 million) is stated after the loss on disposal from this divestment.

The exit from the Brazil and Argentina business is in line with Coats' strategic initiatives, announced in March 2022, to accelerate profitable sales growth and transform the company.

Cash flow

The Group delivered $114 million (2021: $124 million) of adjusted free cash flow in the year. Free cash flow is measured before annual pension deficit recovery payments, acquisitions, disposals and dividends, and excludes exceptional items.

Adjusted free cash flow performance was strong, albeit slightly below 2021, which benefited from some significant, favourable non-recurring items, including non-payment of 2020 staff bonuses. We managed net working capital closely, although there was a $22 million outflow (2021: $14 million outflow). This result was achieved after a significant investment in inventory to underpin service levels during an exceptional period of demand, supply chain disruption and inflationary pressure, which particularly impacted the first half. We continued our disciplined approach to payables and receivables management through the year.

Capital expenditure was $34 million (2021: $31 million), as we continued to maintain a selective approach to investing in growth opportunities, as well as in strategic projects. We anticipate 2023 capital expenditure to be in the $30-40 million range, as we continue to invest in support of our growth strategy and in our environmental performance.

Minority dividends of $18 million (2021: $17 million) were paid, as cash was repatriated from joint ventures to the Group. Tax paid was $55 million (2021: $48 million).

The Group delivered an overall free cash outflow of $247 million (2021: $33 million inflow). This primarily reflects the adjusted free cash inflow of $114 million, offset by:

- UK pension payments of $43 million (being $32 million of ongoing deficit recovery payments and administrative expenses, and $11 million catch-up of deferred 2020 payments which are now fully completed);
- Dividend payments of $33 million;
- Exceptional and acquisition related payments, mainly relating to strategic projects of $23 million;
- Acquisition transaction payments of $12 million;
- Disposals and discontinued operations of $26 million relating to the Brazil and Argentina business: payments to the purchaser and fees of $20 million and $9 million cash outflow from discontinued operations, net of the $3 million overdraft disposed of;
- Net cash paid to acquire the Texon business, which consisted of $235 million cash payment, offset by $17 million cash within the business at the time of acquisition.

The Rhenoflex acquisition, which consisted of a $120 million cash payment, was largely funded by an over-subscribed £92 million equity raise.

Net debt (excluding lease liabilities) at 31 December 2022 was $394 million (31 December 2021: $147 million). Including lease liabilities, net debt was $500 million (31 December 2021: $246 million).

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 $105 million as at 31 December 2022, which was $84 million higher than 31 December 2021 ($21 million surplus). This increase 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, had a surplus on an IAS 19 basis at 31 December 2022 of $181 million (31 December 2021: $108 million). The increase in the surplus during the year of $73 million predominantly relates to net actuarial gains of $45 million. This is from an increased discount rate due to significantly higher corporate bond yields reducing liabilities, but this was partially offset by asset losses due to the high degree of hedging in place in the portfolio. There were also employer contributions (excluding administrative expenses) of $38 million, including $11 million of catch-up payments.

Financial review cont.

UK funding update

We continue to maintain strong and collaborative relations with the Scheme Trustees around strategic planning and have established a joint working group between the Company and Trustees to review further opportunities for de-risking the scheme, beyond the significant positive progress that has already taken place.

As part of this constructive planning the Trustee of the Coats UK Pension Scheme completed a partial buy-in transaction in December 2022 by purchasing a c.£350 million bulk annuity policy from Aviva which insures benefits payable under the scheme in respect of c.3,700 pensioner and dependant members. These members represent roughly 20% of the scheme's liabilities.

The purchase of this policy sees all the Scheme's financial and demographic risks fully hedged for the covered liabilities. The Scheme will receive a regular stream of income that matches the pension payments for the covered members, making it a precise liability hedging asset. This further de-risks the Scheme and reduces future balance sheet volatility. It builds on the significant positive steps taken to de-risk the Scheme in recent years, resulting in 90% of the Scheme's inflation/interest rate exposure having previously been hedged.

The Aviva buy-in is consistent with Coats' aspiration of fully insuring the Scheme and removing it from the Group balance sheet, in a cost effective manner.

When the Technical Provisions (funding) deficit for the Scheme was last formally assessed at 31 March 2021, as part of the triennial valuation cycle, it showed a £193 million deficit. As a result of this valuation, future contributions were maintained at the previously agreed levels of £22 million ($27 million) per annum (indexing) up until 2028, which was expected to result in the pay-down of the deficit slightly earlier than originally planned. The Group agreed to continue to pay the Scheme administrative expenses and levies of around $5 million per annum.

Updates since then indicate that the funding deficit has fallen significantly and is now approaching fully funded on a technical provisions basis. This significant improvement has been due to employer contributions, favourable movements in the market (increasing discount rates) and the de-risking actions that we and the Trustees have taken, for example the buy-in transaction referred to above.

As a result of this significantly improved funding position, and reflective of the collaborative working relationship with the Trustees, we have agreed a mechanism to switch off/switch on the regular cash contributions to the scheme based on monthly estimates of the latest funding position. As such, if the scheme remains in surplus for a consecutive number of months cash contributions will cease entirely until any trigger on the downside (i.e. a return to deficit) has been hit. At this point, contributions on a pre-agreed basis would resume. Given the latest funding position, this has the potential to significantly reduce or eliminate the existing levels of contributions made into the Scheme, and thereby increase free cash flows generated by the Group, within the short to medium term.

Balance sheet and liquidity

Group net debt (excluding lease liabilities) at 31 December 2022 was $394 million ($500 million including lease liabilities), an increase on 31 December 2021 ($147 million). This reflects disciplined cash management as noted above, offset by the acquisition-related items, payments in relation to the sale of the Brazil/Argentina business, ongoing pension deficit repair payments, shareholder dividends and exceptional cash costs in relation to strategic projects.

As previously reported, the Texon acquisition, which was completed in July 2022, was funded by a $240 million temporary acquisition facility. In January 2023, we successfully refinanced this acquisition facility via the US Private Placement (USPP) market with $250 million of notes split between 5 and 7 years tenor at highly competitive interest rates (between 5.3% and 5.5%). This maintains our total committed debt facilities at $835 million with well diversified source and tenor; being $360 million revolving credit facility, $225 million of original USPP notes (2024 and 2027 tenors), and the new $250 million of USPP notes (2028 and 2030 tenors). The committed headroom on our banking facilities was approximately $250 million at 31 December 2022.

At 31 December 2022, our pro forma leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 1.4x and remains well within our 3x covenant limit, and in the middle of our target leverage of 1-2x. Our interest cover covenant also continued to have significant headroom at 31 December 2022 at 19.0x vs a covenant limit of 4x. These covenants are tested twice annually in June and December and monitored throughout the year.

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 are set out in note 1.

Chair’s introduction to governance

David Gosnell

Chair

> The Board's role has been to guide the business through a challenging external environment and through a period of internal transformation, while maintaining our high standards of Corporate Governance and ensuring we deliver long term value to our stakeholders”

DEAR SHAREHOLDER,

On behalf of the Board, it is my pleasure to present the corporate governance report for the year ended 31 December 2022, which provides insights into the Board’s and its Committees’ activities this year.

Board oversight of transforming the business

2022 has been a year of transformation for Coats. Our long history demonstrates our track record of proactively identifying when we need to adapt and innovate to ensure we are well positioned to continue to deliver sustainable long-term growth and success for our stakeholders. I am proud of the way in which we have responded to the challenges of the external environment by thoughtfully considering and taking bold decisions to change the shape of our business. The acquisition of Texon and Rhenoflex led to the decision being taken to create three Divisions; Apparel, Footwear and Performance Materials. This will enable effective integration, drive synergies and allow for end-to end accountability. Accordingly, during 2022 the Board devoted substantial time to considering these acquisitions, including their funding, and their various impacts on the business and operations, as well as on our stakeholders.

Our stakeholders and returning to face-to-face engagement

The need for the Board to consider and understand the insights from and the concerns of our stakeholders continues to be a critical part of the Group’s ongoing success. We were delighted to continue our programme of Board visits in 2022, with the Directors holding their annual away week in Mexico and engaging informally with our employees and communities, including local officials, as well as more formally with customers in the Boardroom.

The Board visited some of our newly acquired sites and met a selection of our new colleagues, both through the acquisition processes and during the Board visit to the Rhenoflex facilities in Germany in September. Our Designated Non-Executive Director for Workforce Engagement, Fran Philip, has continued her programme of in-person and remote engagement during the year. This provides the Board with direct insights, which are of critical importance during this period of significant change to allow a full understanding of the effect of the transformation of the Group and the impact on culture and the workforce.

Chair's introduction to governance cont.

Ensuring our investors understand our strategy and vision is critical to our success and it was gratifying to see the turnout of existing and prospective shareholders at our Capital Markets Day in October. Members of the executive team presented our enhanced Footwear business to bring this to life for investors and demonstrated the synergies available to the Group. Investors also had the opportunity to experience how the integration of the Coats, Rhenoflex and Texon workforces position us strongly going forward.

Sustainability

The need to be socially responsible, including changing how businesses operate to reduce their environmental impact, is rightly a focus for our stakeholders, as well as society as a whole. Our proactive approach and commitment to deliver real change is well documented in our previous reports but more is needed. At the start of this year the Board approved a suite of progressive ESG policies including a new Climate Change policy and Living Wage policy, as well as the consolidated Environmental Policy (which combines elements of our previous environmental and energy policies with appropriate updates).

Sustainability at Coats, including climate-related governance, is led by the Board, supported by the Board Sustainability Committee. Strategy development and monitoring of action plans at an executive level is championed by the Group CEO and the whole Group Executive Team (GET). The responsibilities for each element of our ESG activities are set out in the Committees' section (see page 67). Our independent Non-Executive Directors play a large role in the Board's ESG oversight, including through Committee membership and designated responsibilities at Board level. Further details of the Group's stance and focus on ensuring effective stewardship in respect of key ESG matters are set out in the Sustainability section of this Annual Report, and also in our **Sustainability Report** (available on **www.coats.com/sustainability**). You can also read more about our new 2026 sustainability targets and our policies, as well as reviewing our report on our compliance with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in the Sustainability Report. I am pleased that we have maintained our strong position in the FTSE4Good and we are now in the top 5% of the index. We have also achieved a "AA" rating from MSCI.

Governance and ethics

The Board sets the tone from the top to demonstrate the Group's commitment to ensuring the correct governance mechanisms are in place and followed, and ensuring that we continue to 'do the right thing'. The Audit and Risk Committee (ARC) continues to oversee the governance element of our ESG responsibilities. You can read about the ARC's activities, including their review of sanctions controls and compliance, the oversight of the external auditor tender and the development of the Group's Audit and Assurance Policy, on pages 71 to 76.

Given the context of the level of change in 2022, the Company's well-established Group-wide systems, including the whistleblowing policy and associated processes, which support good governance and decision making, were of critical importance to ensuring that high quality and consistent outcomes continued. The Board regularly reviews and considers individual allegations, consequent investigations and any themes which emerge from our various whistleblowing channels including our externally hosted web service whistleblowing hotline. You can read more about the statistics relating to whistleblowing allegations in the Directors' Report on page 81.

17,000 WORKERS SPREAD ACROSS 50 COUNTRIES

Coats has continued to apply the principles of the UK Corporate Governance Code 2018 ('Code') and our statement of compliance is set out on page 59. Core to all our decisions and debates, are the key themes of sustainability, diversity, engagement with our stakeholders, fair remuneration structures and a strong corporate culture. You can read more about our proposed Remuneration Policy, which will be presented to shareholders at the 2023 AGM, in the Remuneration Committee report on pages 85 to 104.

Diversity, equity and inclusion

Our people are fundamental to our sustainable success. These 17,000 employees spread across some 50 countries are united by the Group's purpose to 'connect talent, textiles and technology to make a better and more sustainable world'. The Board's role in setting and monitoring the Company's culture remains critical, particularly in ensuring that the Group's culture is appropriately aligned internally across the new business areas, and also with strategy. In December 2022, Farnaz Ranjbar, our Chief HR Officer, updated the Board on the initiatives launched as a part of 'Coats for All', an umbrella programme to ensure alignment across all areas of our Group ways of working. The initiative includes specific diversity projects and targets. 86% of our employees now work in a Great Place to Work certified country and this, combined with the 6% increase seen in our trust index score, are testimony to our high levels of employee engagement. You can read more, including how we manage talent in the People and Culture section of this Annual Report as well as reading about our refreshed Board diversity policy in the Nomination Committee report on pages 77 to 79.

Chair's introduction to governance cont.

The Nomination Committee, together with the Remuneration Committee, continues to oversee the social elements of our ESG responsibilities.

Board effectiveness

In line with the requirements of the Code, this year an evaluation of the effectiveness of the Board and its Committees, including consideration of the factors to be considered by Directors to fulfil their duties under s172 of the Companies Act 2006, was undertaken by Independent Audit Limited, an external service provider. Full details of the process, outcomes and how this will inform the Board's development plan for 2023 can be found on pages 70. You can read about the elements of the Board evaluation concerning the effectiveness of the Committees in their individual reports.

Board composition

Ensuring the correct composition of the leadership of the Company, including the Board, GET and senior management is key to achieving our goals. Following Anne Fahy stepping down from the Board in May 2022, Nicholas Bull became Chair of the Audit and Risk Committee. I'm delighted that our Non-Executive Director search processes resulted in the appointment of Steve Murray, as a Non-Executive Director and member of the ARC, Nomination and Remuneration Committees, in September 2022 and the appointment of Heather Lawrence, as a Non-Executive Director and Chair Designate of the ARC and a member of the Nomination Committee, in November 2022.

Steve and Heather bring their significant skills and experience to further strengthen our Board and enhance our succession processes. You can find more details in the Board biographies set out on pages 61 to 63.

You can read more about the processes undertaken in 2022 in the Nomination Committee report on pages 77 to 79 and find further details about the members of the GET and their remits on page 68.

David Gosnell

Chair

1 March 2023

THE UK CORPORATE GOVERNANCE CODE

Compliance statement

Coats has applied all of the principles and complied with all the relevant provisions of the 2018 UK Corporate Governance Code (Code) during the course of the year ended 31 December 2022, with the exception of a short period of non-compliance with provision 24 (Membership of the Audit Committee) and provision 38 (alignment of executive director pension contribution rates with those available to the workforce).

During the year there was a temporary period of non-compliance with provision 24 following Anne Fahy stepping down from the Board on 18 May 2022 as there were only two members of the Audit and Risk Committee (Nicholas Bull, who has recent and relevant financial experience, and Jakob Sigurdsson). This position was resolved when Steve Murray was appointed as a Non-Executive Director and became a member of the Audit and Risk Committee on 1 September 2022. Further details are provided in the Nomination Committee report on page 78.

During the year there was non-compliance with provision 38. Jackie Callaway was appointed in December 2020 with a pension benefit which was aligned to the workforce. A policy setting out phased arrangements was in place for Rajiv Sharma which limited his pension benefit with effect from 1 January 2020 to a fixed amount and his pension benefit reduced to 12% to ensure compliance by 31 December 2022, as detailed in the Remuneration Report on page 96. The Board considers it appropriate that there was a phased transition of the pension benefits for existing Executive Directors who originally had a contractual entitlement to a higher level of pension benefit.

A summary of how we have applied the principles set out in the Code is presented in the table on page 57.

Chair's introduction to governance cont.

How governance supports strategy

Strategic goal

ACCELERATE PROFITABLE SALES GROWTH

Read more on page 12

TRANSFORM THE BUSINESS

Read more on page 12

CREATE VALUE

Read more on page 12

Key stakeholders

The Board's governance role

Accelerate profitable sales growth: 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.

Transform the business: The Board reviews the strategy for sustainable growth and leverages its collective experience to advise on related matters.

Create value: The Board reviews key proposals relating to business capability.

Examples of areas of focus in 2022:

Accelerate profitable sales growth

- Acquisitions of Texon and Rhenoflex and implementation of the Strategic Projects
- In-depth review of Footwear strategy
- In-depth review of Performance Materials strategy
- Monitoring of key metrics, including sustainability and KPIs, at each Board meeting

Transform the business

- Update on Culture, talent plan processes for 2023 and the update on the launch of 'Coats for All' and updates from our designated Non-Executive Director for Workforce Engagement's meetings with employees
- Oversight of Strategic Projects including ensuring appropriate people and resource allocation
- Review of organisational structure
- Divestment of Brazil and Argentinian businesses
- Approval of 2026 sustainability targets and ESG policies (including Living Wage and Climate Change policies)

Create value

- Review of UK pension scheme £350 million buy-in and subsequent agreement of mechanism to switch off/on regular cash contributions to UK pension scheme, based on monthly estimates of latest funding position
- Review and selection of funding process for acquisition of Rhenoflex and impact on leverage
- Review of Group's dividend policy

Stakeholders key

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

Board of Directors

Board profiles (excluding Executive Directors)

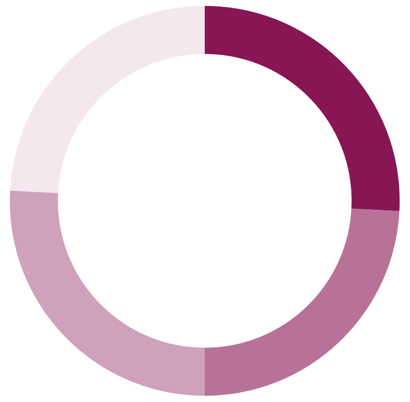
Length of service

- 0–3 years 45%
- 3–6 years 22%
- 6–9 years 33%

Relevant Functional Experience

- People 20%
- Legal 13%
- Risk 18%
- Finance 20%
- Technology/Digital 13%
- Customer 16%

Geographic Experience



- Global Business Experience 26%
- US Market Experience 24%
- European Market Experience 26%
- Asia Market Experience 24%

Key to Committee memberships

- Committee chair
- A Audit and Risk
- N Nomination
- R Remuneration
- S Sustainability

David Gosnell OBE

Chair of the Board

British

Appointed as a Non-Executive Director on 2 March 2015, Chair of the Board since 19 May 2021

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 77 and an overview of the activities of the Sustainability Committee on page 67.

Rajiv Sharma

Group CEO

Singaporean

Appointed as an Executive Director in March 2015, Group CEO since 1 January 2017

Key skills and experience

– 30 years' global multi-industry leadership experience
– Growth, digital, sustainability and acquisitions track record

Previous experience and 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 CEO's statement on page 8.

Jackie Callaway

Chief Financial Officer

New Zealander

Appointed as an Executive Director on 1 December 2020, Chief Financial Officer since 1 April 2021

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.

Board of Directors cont.

Nicholas Bull

Senior Independent Non-Executive Director

British

Appointed as a Non-Executive Director and Senior Independent Director on 10 April 2015

Key skills and experience

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

External appointments

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 Fidelity China Special Situations plc, 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. He received an Honorary Doctorate of Law from the University of Exeter in 2022.

Nicholas was appointed as Chair of the Audit and Risk Committee on 19 May 2022 and he is expected to step down as Chair following the 2023 AGM. Nicholas brings extensive financial experience through his previous roles with Fidelity China Special Situations plc, De Vere Group Limited, Morgan Grenfell, Société Générale and ABN Amro.

See the Audit and Risk Committee report on page 71.

Heather Lawrence

Independent Non-Executive Director

British

Appointed as a Non-Executive Director on 7 November 2022

Key skills and experience

- More than 25 years' experience in finance
- Strong background in corporate finance and investment banking, and track record of delivering positive change globally and regionally

External appointments

Non-Executive Director and Chair of the Audit Committee at Melrose Industries plc. Heather originally qualified as a Chartered Accountant and subsequently spent well over a decade working in senior roles in corporate finance and investment banking, where she honed her experience across industrial and transportation businesses. In her most recent role, Heather was a Managing Director at Citigroup, where she ran the Aviation and Travel franchise in EMEA. She has served on several boards and retired from her role as a Non-Executive Director of Flybe plc in 2019.

Qualifications

Heather holds a bachelor's degree in Economics from the University of Exeter.

Heather was appointed as Chair Designate of the Audit and Risk Committee on 7 November 2022, and she is expected to succeed Nicholas Bull as Chair following the 2023 AGM.

Hongyan Echo (Echo) Lu

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

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

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 was appointed as Chair of the Remuneration Committee on 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 85.

Key to Committee memberships

- Committee chair
- A Audit and Risk
- N Nomination
- R Remuneration
- S Sustainability

Board of Directors cont.

Steve Murray

Independent Non-Executive Director

British

Appointed 1 September 2022

Key skills and experience

- More than 30 years' experience in the apparel and footwear industry
- Strong background in general management and track record of delivering positive change globally and regionally

External appointments

Previously Global Brand President of The North Face and a member of the group executive leadership team at VF Corporation, one of the world's largest apparel, footwear and accessories companies and the parent company of The North Face, Timberland and Vans. Steve previously served as CEO of Airwair International (Dr. Martens, the iconic British footwear brand), and prior to that he served as Global Brand President of Vans, Global Brand President of Urban Outfitters and EMEA President of Deckers Brands.

Qualifications

Steve holds a bachelor's degree in Business Studies from Middlesex University, England.

Fran Philip

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, 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.

Jakob Sigurdsson

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.

Key to Committee memberships

- Committee chair
- A Audit and Risk
- N Nomination
- R Remuneration
- S Sustainability

LEADERSHIP AND ENGAGEMENT

Our governance framework enables effective decision making and ensures collaboration between the Board, its Committees and the GET.

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 and monitoring performance by ensuring that the Group is suitably resourced to achieve its aspirations;
- overseeing returns to shareholders and monitoring the share price;
- encouraging entrepreneurial leadership by providing a framework of prudent and effective controls which enables risk, including risk tolerance, to be assessed and managed, supported by robust systems of governance, ethics and compliance;
- engaging appropriately with stakeholders to understand their views; and
- setting and monitoring the Group's culture, supported by its values, and ensuring alignment with the Company's purpose and strategy.

The 'Role of the Board' section on page 65 sets out how the Board has discharged these key roles in 2022.

CHAIR

- Primarily responsible for the overall effectiveness of the 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 open and regular contact and interaction with the CEO.
- 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 Directors annually.
- Acts as an 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.
- Responsible for the governance of the Company.
- 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.

THE ROLE OF THE BOARD

Setting the strategy

The Board's forward-looking agenda focused on strategic matters including ESG and regulatory issues, as well as any other matters that may influence or affect the Company's achievement of its goals, including generating sustainable growth. During 2022, the Board considered a wide range of topics including the structure of the organisation, the progress of Strategic Projects as well as divestment of the Brazil and Argentinian business and the acquisitions of Texon and Rhenoflex. The Board held its annual Strategy Meeting in September at Rhenoflex and focussed on the strategy of the Footwear business and considered the Performance Materials strategy for growth.

Performance and monitoring including shareholder returns

The Board and its Committees evaluate and oversee current performance, including against ESG targets, and are 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. Post-acquisition reviews are undertaken to ensure performance is in line with expectations. Performance monitoring includes non-financial performance such as employee wellbeing, environmental and social measures, and ethical business practice.

Setting the framework of internal controls and risk management

The Board sets the Company's risk appetite, assesses principal and emerging risks and reviews mitigation plans. Responsibility for monitoring the Company's risk management and internal control systems is delegated to the Audit and Risk Committee (see page 74). You can read more about our principal and emerging risks on pages 42 to 49.

Robust systems of governance, ethics and compliance

The Board regularly reviews information relating to, among other areas, anti-bribery and corruption and whistleblowing as set out in the Audit and Risk Committee Report and in the principal risks and uncertainties section. As set out in the Sustainability Report, 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. In accordance with the UK Modern Slavery Act 2015, we publish on our website a statement, which is approved annually by the Board, on our actions to prevent modern slavery in our operations and in our supply chain. We expect our employees and our suppliers to behave ethically in all their dealings relating to our business. All our employees receive training on ethics, compliance and modern slavery including focussed training and online training modules for our senior employees and those with customer or supplier facing roles. These training programmes are regularly refreshed, available in 12 languages, form part of the induction for new starters and are rolled out biannually for all relevant employees including Directors.

Stakeholder engagement

The Board ensures that there is continued compliance with the Code (see page 59) 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 32 to 34.

Culture

The Board and its Committees assess and monitor culture through a number of indicators and mechanisms including in 2022:

- A presentation on Culture, diversity, equity and inclusion initiatives, including the setting of targets, and talent management plans for 2023 at the December 2022 Board meeting
- Health and safety updates at every Board meeting and an annual review into wellbeing
- Designated Non-Executive Director for Workforce Engagement updates and Great Place to Work certifications and updates
- A review of whistleblowing cases and remedial actions (read more on page 81)
- Insights from supplier audits
- A sustainability strategy review and consideration of sustainability metrics that are presented at all Board meetings
- Appropriately monitoring policies, practices and behaviour and how they support strategy via reports given at Board meetings

Corporate governance cont.

"Good governance is key to delivering a strategy. The Board has the global view which enables them to ensure that individual plans align and therefore that the group's strategy and broader purpose is met."

Heather Lawrence
Non-Executive Director

Ensuring alignment

The Board, with support from its Committees, plays a crucial role in ensuring the alignment of the Group's culture with the purpose and strategy. As set out elsewhere in this Annual Report, the Board has considered the changes to the organisational structure resulting from the Strategic Projects, acquisitions and divestments as part of the updates presented at Board meetings and a key part of these discussions, and ultimate decisions, relate to our people and culture. The Board and its Committees continue to consider any trends in, and the insights from, the cultural indicators and metrics as well as other information presented at and in between Board meetings, through the lens of ensuring the desired alignment between culture, values, strategy and purpose, and provide feedback and direction if required. You can read more about our values on page 11.

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 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 92. These documents are available for inspection at the registered office of the Company during normal business hours and at the AGM venue. 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 any 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. 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.

Corporate governance cont.

BOARD COMMITTEES

Audit and Risk Committee

– Oversees and monitors the integrity of 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-related element of ESG.

See page 71 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 the setting of the 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 85 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 77 for more information.

Sustainability Committee

– Provides strategic oversight and monitors the execution of the Company's Sustainability strategy and initiatives.
– Oversees, reviews and provides input as required to refine, enhance and accelerate the progress of the Company's sustainability strategy, projects and targets.
– Oversees the environmental and employee engagement-related social elements of ESG.

The Sustainability Committee is chaired by the Chair of the Board, and its other members are the Group CEO and two Non-Executive Directors. It was established in December 2021 and its terms of reference are available on coats.com. The Committee met twice during 2022.

See the Working Responsibly section of this Annual Report and the Sustainability Report, available from www.coats.com/sustainability, for more information.

OTHER COMMITTEES

Disclosure Committee

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

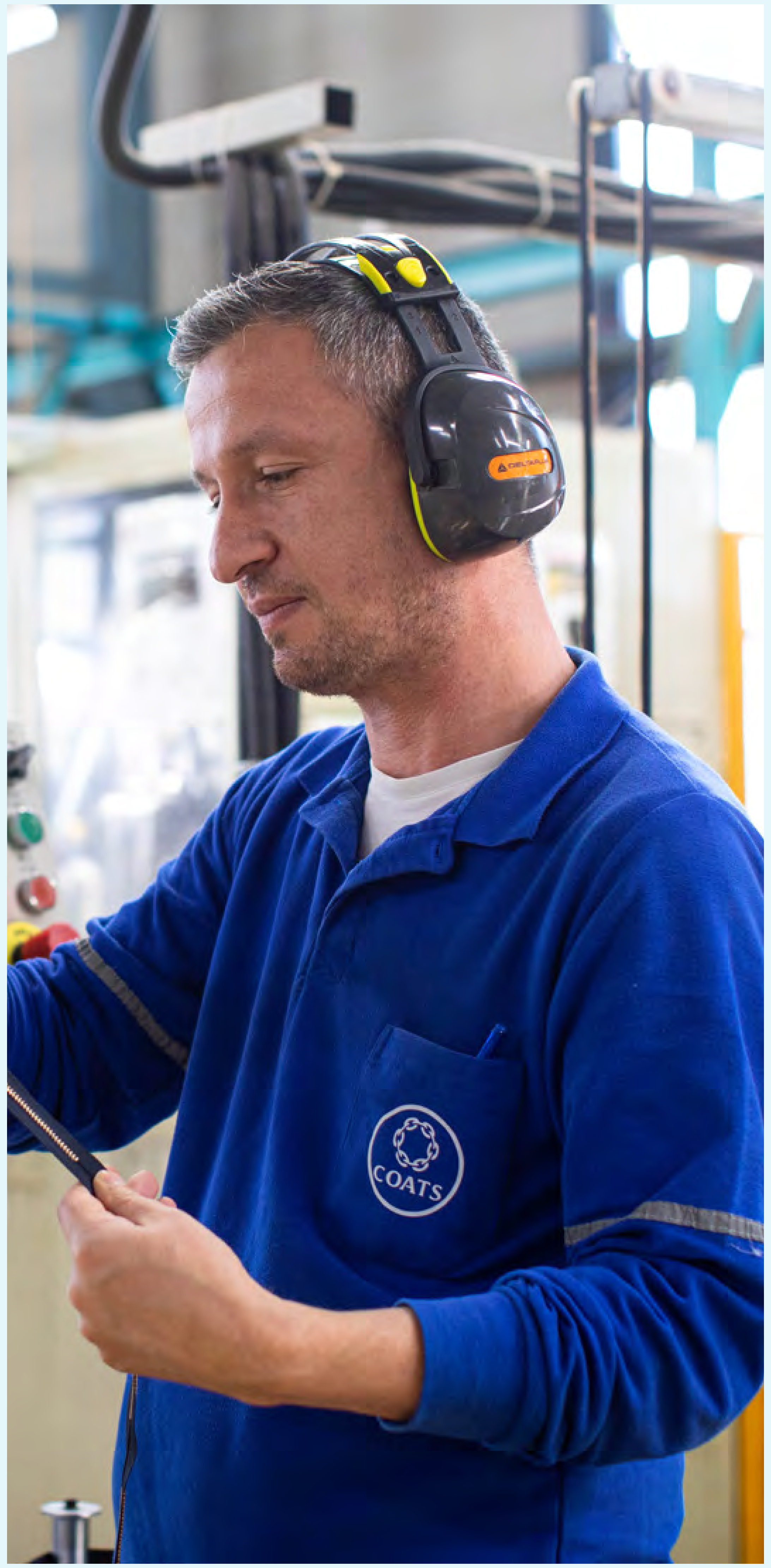
Acquisition Committee

The Acquisition Committee is authorised to oversee specified projects by the Board when appropriate. The Group CEO chairs the Committee, and it includes the Chief Financial Officer and the Group Company Secretary.

Group Risk Management Committee (GRMC)

The GRMC is responsible for formulating risk management strategies and polices, and monitoring risk management throughout the Group. Its Chair is the Group CEO and its membership is aligned to the Group Executive Team.

See page 68 for information on our Group Executive Team.



Corporate governance cont.

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.

During 2022 the following roles were part of the GET:

RAJIV SHARMA

Group CEO

See biography on page 61

- Responsible for executive management of the Group as a whole.
- Delivers strategic and commercial objectives within the Board's stated risk appetite (see page 42 for more detail on key risks).
- Builds positive relationships with all the Group's stakeholders (see page 32).

JACKIE CALLAWAY

Chief Financial Officer

See biography on page 61

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

ADRIAN ELLIOTT

President, Apparel & Footwear

- 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.

STUART MORGAN

Chief Legal & Risk Officer and Group Company Secretary

- Responsible for legal and compliance, governance, risk management and company secretarial matters. He has executive oversight of the Group Internal Audit function.
- You can read more about the Group Internal Audit function's work during the year on page 74.

FARNAZ RANJBAR

Chief Human Resources Officer

- Responsible for delivering the global Human Resources strategy, including performance management, progression planning, reward and talent acquisition.
- You can read more about People and Culture on page 16.

SOUNDAR RAJAN

Chief Supply Chain Officer

- Responsible for supply chain management, sustainability, and health and safety.

MICHAEL SCHOFER

Chief Operations Officer, Americas

- Responsible for all operations in the Americas region, including quality, compliance, customer service and sustainability programmes.

FREDERIC VERAGUE

Chief Operations Officer, EMEA

- Responsible for all operations in the EMEA region, including quality, compliance, customer service and sustainability programmes.

BILL WATSON

Chief Operations Officer, Asia

- Responsible for all operations in the Asia region, including quality, compliance, customer service and sustainability programmes.
- The President, Performance Materials, left the business on 31 December 2022 . This role was responsible for delivering the overall strategy for Performance Materials, including commercial activities and developing talent, and Group innovation.

GET ROLES IN 2023

From 1 January 2023, a new GET structure is in effect following the Board's decision to change to a divisional operating structure. The changes to GET membership and responsibilities are set out below:

- Adrian Elliott is now CEO of Apparel;
- Soundar Rajan is now CEO of Performance Materials; and
- Frederic Verague is now CEO of Footwear.

Rajiv Sharma, Jackie Callaway, Stuart Morgan and Farnaz Ranjbar continue in their existing roles.

Corporate governance cont.

Board and Committee attendance

The Directors' attendance record at the last AGM, scheduled Board meetings and Board Committee meetings regularly attended by Non-Executive Directors, for the year ended 31 December 2022 is set out in the table below. 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.

During the year, the Board held seven scheduled meetings and an additional four Board calls were held to discuss business matters that the Chair and Group CEO decided should be considered by the Board. All Directors received papers for meetings in advance. The Board resumed meeting in person for the majority of meetings held during the year but utilised technology to hold hybrid or fully virtual meetings when it was appropriate to do so, recognising the environmental benefits and other efficiencies in balancing a mix of virtual and physical meetings. This approach will be kept under review to ensure effectiveness is optimised.

The Board visited the Rhenoflex facilities in September and held the Annual Strategy Meeting onsite to allow engagement with the local workforce and other stakeholders to enhance strategic discussions and understanding of the Footwear business. The Board travelled to Mexico for its annual away week and toured various sites, met with stakeholders and participated in community events. You can read more about the Board's engagement with stakeholders on pages 32 to 34.

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	Audit and Risk	Nomination[5]	Remuneration	Sustainability	AGM
David Gosnell	11/11		1/1		2/2	1/1
Rajiv Sharma	11/11				2/2	1/1
Jackie Callaway	11/11					1/1
Nicholas Bull	11/11	5/5	1/1	4/4	2/2	1/1
Anne Fahy[1]	4/4	3/3	1/1			
Heather Lawrence[3]	2/2	1/1				
Echo Lu	10/11[4]		1/1	4/4		1/1
Steve Murray[2]	4/4	1/1		2/2		
Fran Philip	11/11		1/1	4/4	2/2	1/1
Jakob Sigurdsson	11/11	5/5	1/1			1/1

1. Anne Fahy stepped down from the Board on 18 May 2022.
2. Steve Murray was appointed to the Board on 1 September 2022.
3. Heather Lawrence was appointed to the Board on 7 November 2022.
4. Echo Lu was unable to attend the ad hoc Board call convened at short notice on 25 July 2022 due to a long-standing commitment that could not be changed. The business of the meeting was time sensitive. Echo had been involved in all previous discussions regarding the business of the meeting and discussed the outcomes of the call with the Chair shortly after the meeting.
5. Certain Nomination Committee discussions were conducted as part of scheduled Board meetings.

Board effectiveness improvements in 2022

The Board progressed the agreed action plan in relation to the feedback received as part of the 2021 internal effectiveness review and a summary is set out below:

Actions taken in 2022 as a result of previous evaluation feedback	
Continue focus on ESG matters, particularly related to 'social' including culture, at Board meetings and through Committees, including the newly formed Sustainability Committee	– Appointment of new Chief Human Resources Officer, launch of 'Coats for All' including new DE&I targets and initiatives – Continuation of 'Great Place to Work' certification – New sustainability targets recommended by Sustainability Committee to Board – Development of Audit and Assurance Policy by Audit and Risk Committee – Development of new Remuneration Policy by Remuneration Committee
Continue to ensure that the Board engages appropriately with all stakeholder groups	– Further information available in Stakeholder engagement section of this Annual Report on pages 32 to 34 – Focus on maximising time at Board visits to engage with all stakeholders, including employees at all levels of the business
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	– Agreed new ways of working to identify desired paper length relative to discussion time allocated at meetings, with traffic light tracking system to easily see compliance – Revised Board paper templates shared with presenters – Significant reduction in length of Board packs demonstrated in 2022

Corporate governance cont.

2022 review of effectiveness

In line with the Code, this year an external evaluation of the effectiveness of the Board and its Committees was conducted by Independent Audit Limited ('IAL'). IAL were also used by the Company to conduct the 2019 external evaluation and it was considered beneficial to track changes in the previous findings and adopt a consistent approach to allow true comparisons, noting the period of substantial change both internally and externally over the intervening time frame. IAL has no other connection to the Company nor any Directors.

The process included the circulation of an electronic questionnaire, that was developed and administered by IAL, pertaining to the Board and its Committees which was completed by all Board members and also by regular Board and Committee meeting attendees. The questionnaire covered a wide range of topics, including Board operations and dynamics, Board and Committee composition including diversity and how the Board and senior management interacted. The questionnaire also probed the content and scope of topics covered at Board meetings, including stakeholder engagement and overseeing culture, as well as considering the discharge of other S172 duties. This process was supplemented with interviews conducted between IAL and the Chair of the Board and each of the Chairs of the Committees, the Group CEO, the Chief Finance Officer and the Company Secretary. IAL also observed a Board and Remuneration Committee meeting and examined a sample of materials prepared for Board and Committee meetings to enable them to make a full and transparent evaluation of the ways of working. IAL presented a summary of their findings to the Chair and the Group Company Secretary to discuss key outcomes. The full report was then circulated to the Board and was considered at the December 2022 meetings of the Board and its Committees, where a full and frank discussion and analysis were undertaken. The report identified key strengths, including the Board's interaction with the GET, its contribution to strategy and its oversight of risks and Group culture, and areas for development. Action plans and focus areas for 2023, including timelines for delivery, were agreed as set out below and in the relevant Committee reports. Noting that there had only been two meetings of the newly formed Sustainability Committee, it was deemed appropriate not to have a full formal evaluation but instead to include open ended questions on relevant areas to identify any relevant feedback and areas of concern.

Areas for development and actions planned for 2023

Key areas for focus	Actions identified for 2023
Effectively telling the strategic story externally	– Ongoing Investor Relations programme with regular updates presented at Board meetings – Refreshing the Annual Report
Board's oversight and assurance of technology	– Regular Board updates from the Head of Cyber Security – Cyber Security deep dive at the Board
Continuing to work on executive succession planning	– Continuing to invite appropriate Group Executive Team members to attend Board meetings as an observer – Talent and succession reviews with Chief HR Officer

Audit and Risk Committee report

Nicholas Bull

(Chair since 19 May 2022)

Member since 2015

Heather Lawrence

(Chair Designate)

Member since 7 November 2022

Jakob Sigurdsson

Member since 2020

Steve Murray

Member since 1 September 2022

Dear Shareholder,

I am pleased to present this report, which is my first as Chair of the Audit and Risk Committee, for the year ended 31 December 2022. 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.

This year we completed a competitive external audit tender process which resulted in the appointment of Ernst & Young LLP, subject to approval by the shareholders at the 2023 AGM, for the financial year commencing 1 January 2023. You can read more about the process undertaken on page 75.

The Committee reviewed and considered the governance of the Strategic Projects that were undertaken during the year. Ensuring the correct accounting policies and assurance processes including, where relevant, post investment reviews (in particular in relation to acquisitions) enable the Company's strategy to be appropriately and effectively executed.

The Committee has continued to look ahead towards potential future regulatory changes and emerging best practice. In anticipation of the reforms proposed by the UK government in its publication from May 2022, the Committee has overseen the development and approval of an Audit and Assurance Policy which is available on our website **www.coats.com**. During the year, the Committee also continued to consider ESG-related reporting requirements and expectations. The Company will continue to consider the appropriate timing and process to progress the external assurance of its sustainability data.

The global business environment continues to be uncertain and the importance of the Committee's annual work cycle of monitoring and reviewing the integrity of the Company's financial reporting and supporting systems and process, reviewing Group Internal Audit activities including the processes for whistleblowing and fraud, reviewing and challenging risk management and internal controls processes remains critical to our stakeholders. During 2022, there have been deep-dives into expense management processes and further reviews of compliance with HR controls, noting the change in Chief HR Officer during the year. Recognising the increase in the prevalence of cyber-attacks on corporates, in July 2022 the Committee reviewed the cyber security-related controls, mitigations and the methods used for threat identification.

Anne Fahy resigned from the Board and as Chair of the Committee at the 2022 AGM. I would like to thank Anne for her valuable contributions during her tenure. I was appointed Chair of the Committee for one year while an external search for a new Non-Executive Director was conducted. Heather Lawrence became a Non-Executive Director and was appointed Chair Designate of the Committee in November 2022, and she is expected to succeed me as Chair of the Committee following the 2023 AGM. Steve Murray was appointed as a Non-Executive Director and a member of the Committee in September 2022. I'm delighted to welcome both Heather and Steve to the Committee.

Nicholas Bull
Chair, Audit and Risk Committee
1 March 2023

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 Group Internal Audit.
- 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 consider reports under the whistleblowing policy in conjunction with the Board.
- Develop and monitor the Audit and Assurance Policy.
- Reviewing the Group's compliance with the 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.

Audit and Risk Committee report cont.

Highlights of 2022

- Completion of audit tender resulting in appointment of Ernst & Young LLP.
- Development of assurance policy.
- Developing regulatory environment for audit.
- Deep dives into cyber-security and expense controls processes.

Areas of focus for 2023

- Design and rollout of automated controls testing.
- External auditor transition.
- Supplier payment terms review.
- Progressive implementation of assurance policy including the assurance of sustainability data.

Membership and meetings

The members of the Committee are independent Non-Executive Directors. 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 69. The Committee met privately with the external auditor and with the Group 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 Senior Financial Reporting Manager, the Head of Group Internal Audit, the Chief HR Officer and the external auditor attended parts of these meetings by invitation. The Group Chair and Group CEO may also attend meetings. The Deputy Company Secretary 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.

'Financial expert', recent and relevant financial experience

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 purposes of the Code, in respect of the financial year ended 31 December 2022, Nicholas Bull, Anne Fahy and Heather Lawrence 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 61 to 63.

Financial reporting, going concern and viability statement

During the year, the Committee reviewed the interim results announcement, including the interim financial statements, the Annual Report and associated preliminary results announcement, focussing on key areas of financial judgement and estimates made by management to ensure it was satisfied with the outcome, critical accounting policies, disclosures (including those relating to contingent liabilities, climate change and principal risks), provisioning and any changes required in these areas or policies. Particular focus areas during the year were the accounting treatment of our recent acquisitions and our Strategic Projects. The Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 50. The Committee reviewed the process undertaken to ensure that the model used was consistent with the approved Business Plan and that the relevant scenario and sensitivity testing aligned clearly with the principal risks of the Group. The Committee 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 81 and confirmed its satisfaction with the methodology including the appropriateness of sensitivity testing.

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 (FRC) guidance.

Fair, balanced and understandable

As part of its review of the company's Annual Report and associated disclosures, the Committee has considered whether the report is 'fair, balanced and understandable' and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, as required by the Code. The Committee used the established processes to ensure its input was appropriately timed, including providing feedback on the planning process, and considering the reviews taken by external 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, and this feedback was appropriate incorporated. In this respect the Committee focussed on ensuring consistency and completeness in non-financial reporting, including ESG and TCFD reporting, principal risks and uncertainties and reviewing the use of alternative performance measures and their appropriateness in aiding users of our financial statements to understand better our performance year-on-year. On this basis, the Committee recommended to the Board that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

Audit and Risk Committee report cont.

Following their review of the Annual Report for the year ended 31 December 2021, the FRC wrote to the Company in May 2022 requesting additional information to understand the basis for recognising the insurance reimbursement receivable relating to the Lower Passaic River legacy environmental matter, as well as details of other provisions. We provided this information as part of our response, which the FRC accepted as being satisfactory and closed the matter. In addition, the FRC listed some observations from their review in the appendix to their letter and we have reflected the appropriate changes in this Annual Report.

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 2022, exceptional and acquisition-related items of \$55.0m 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.
Acquisition accounting – purchase price allocation	Following the acquisitions of Texon and Rhenoflex, the Group carried out an exercise to allocate the purchase price to the identifiable assets acquired and liabilities assumed at fair value. This exercise resulted in the identification of provisional goodwill and intangible assets of \$338.7 million; the disclosure in note 31 provides further details. The Committee assessed the approach and judgements taken by management, whilst also taking into account the views of the external auditor and concluded the provisional fair values included in the financial statements are appropriate.
Pension matters – valuation of obligations and recognition of surpluses	At 31 December 2022, the Group's IAS19 Pension surplus was \$105.4 million. The Committee reviewed the methodology for determining key assumptions underpinning the valuation of liabilities of the Group's most significant pension schemes, including the impact of the buy-in transaction completed during the year in the UK scheme. 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 in line with accounting practice.
US legacy environment provision	The Group has recognised a provision, net of insurance reimbursements, of \$9.2 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 2022 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 adjusted effective tax rate, which decreased from 30% to 29%, the Committee also considered the Group's uncertain tax provisions and deferred tax assets, which amount in total to \$26.3 million and \$24.4 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.

Audit and Risk Committee report cont.

Internal control and risk management

The Board is responsible for the Group's risk management framework and risk appetite. The Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of risk management and internal control processes during the year. The principal risks and uncertainties facing the Company are addressed in the Strategic Report and in the table on pages 42 to 49 in this Annual Report.

Fundamental components of the Company's internal control and risk management framework include:

- management structure supported by clear approval limits and delegated authorities
- appropriately drafted and communicated policies, procedures, and guidance to support business operations
- a thorough and co-ordinated annual planning process and strategy review, combined with comprehensive financial forecasting, reporting, and budgeting
- embedded tools and technology such as SAP and Concur
- a well-established sign off system in relation to financial reporting and other business matters
- appropriate post-acquisition integration activities to ensure adherence to Group standards
- Group Internal Audit activities and investigations
- an externally operated whistleblowing helpline and robust process to allow anonymous reporting and suitable investigations

The Committee received updates on internal control matters from the management, Group Internal Audit and the external auditor at every meeting, as part of its key duty to review the Company's internal control processes to facilitate timely identification of issues and formal tracking of remedial 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 conducted a deep dive into cyber security risks and controls, and this will continue to be a focus in 2023. Remediation plans are monitored closely on an ongoing basis, including a further review of the application of HR controls to ensure these remained on track after the focus in 2021. The Committee continued to receive detailed bi-annual reports on internal controls over financial reporting, which included analytical reviews of balance sheets conducted in the business, deep dives into key financial risks and judgements and a review of the timeliness of previous Group Internal Audit follow-up actions. There were also regular updates on the governance and reporting of the Strategic Projects, divestments and acquisitions with agreement on how to communicate any relevant lessons learned.

Again, the Committee conducted its annual review of the effectiveness of the Company's risk management and internal control systems covering all material controls, including operational and compliance controls. Following a robust process, the Committee was satisfied that these systems operate effectively in all material respects with no significant weaknesses identified and others remediated appropriately. The Committee also undertook its annual review of ESG reporting and disclosures, including consideration of the TCFD disclosures.

The Committee reviews the minutes of all Group Risk Management Committee meetings and discusses any relevant matters that have arisen with management.

Internal audit

The Group Internal Audit plan for the year is agreed in advance and reviewed at each Committee meeting. Updates are provided on audit coverage and any recommended changes to the schedule of work. The Committee reviews key findings from Group Internal Audit reports, receives detailed reports from management where appropriate, and monitors the rate at which actions agreed with management are implemented. Group Internal Audit present their annual audit opinion at the February meeting of the Committee. 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.

During the year, key themes in the Group Internal Audit reports included compliance with environmental and regulatory requirements across locations including reviews of compliance with zero discharge of hazardous chemicals rules. Group Internal Audit provided several updates on the consistency of the application of the expenses policy for those using our standard SAP Concur system noting any remediation activities in the event of exceptions, and this will be a regular activity going forward. Data analytics were also being used to review controls where certain exceptions to certain IT controls had been observed, with appropriate reporting being provided to the Committee. Investigations were conducted both remotely and physically on site during 2022, and the Committee continued to monitor the way internal audits were undertaken and the findings to ensure there was consistency of approach on audit delivery.

Audit and Risk Committee report cont.

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. Group Internal Audit also provide regular resourcing updates, and this was a priority in 2022 with a focus on the appropriate provision of external and internal resource to fill any temporary staffing gaps. Group Internal Audit continued to progress the actions identified as part of the effectiveness evaluation carried out by the Chartered Institute of Internal Auditors in 2021 and provided regular updates to the Committee. An internal assurance map was developed during 2022 and this will continue to be monitored. Group 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.

In response to the BEIS consultation on “Restoring Trust in Audit and Corporate Governance”, and our desire to take a proactive stance in this area, we have produced an Audit and Assurance Policy which outlines our approach to audit and assurance within the Group in all key areas, including future developments. This policy statement reflects our current position and this will continue to evolve, reflecting the final outcomes of the BEIS consultation and associated regulatory reform. In-line with the ongoing consultation it is hoped that this policy statement will act as engagement facilitation tool. The Committee welcomes consultation with our stakeholders in this matter.

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. This will be Deloitte's last year auditing the Company. 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 2022, 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 7%. 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 requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Audit tender

As set out in last year’s Annual Report, the Company conducted a competitive tender process for the Group’s external auditor during 2022. Five firms were approached, including two 'middle tier' firms. A formal RFP document was then issued to three firms and two firms completed the full process. The Committee agreed a clear set of evaluation criteria and critical success factors having considered the suggested criteria in the FRC guidance. Both firms submitted comprehensive tender documents, including lead partners CVs, for consideration. The firms attended meetings with members of senior management and presented to a selection panel consisting of Committee members, the Chair, the Chief Financial Officer and members of the Finance function. There were no contractual obligations that restrict the Company’s choice of external audit firm but the auditor tendering and rotation requirements set by the Code, the Competition & Markets Authority and the European Commission preclude Deloitte from the tender process. Deloitte LLP was appointed the Company’s external auditor in 2003 and their work in respect of the year ended 31 December 2022 will be their final audit of the Company. After due consideration and as announced on 11 November 2022, the Company intends to appoint Ernst & Young LLP as its auditor for the year ending 31 December 2023, subject to shareholder approval at the 2023 Annual General Meeting of the Company. Since their appointment, work has been completed to ensure Ernst & Young LLP are independent, and relevant transitionary activities have commenced, ahead of their expected formal appointment at the AGM in May 2023. No members of the Committee have any connection with the current or potential auditors.

Audit and Risk Committee report cont.

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 2022, and noting that this would be the final audit conducted by Deloitte LLP, the Committee conducted an assessment of 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 questionnaire covered topics such as the robustness of the audit, and the quality of delivery, reporting and service as well as including free-from questions to allow consideration of any other points that respondents wished to raise. 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. Key themes of the feedback, including the opportunities identified for process enhancement will be shared with the Company's incoming auditor.

Assessment of the effectiveness of the Committee

The Committee effectiveness in respect of the year ended 31 December 2022 was evaluated as part of the external evaluation conducted by Independent Audit Limited (you can read more about this on page 70). The Committee considered the findings of the process in relation to both the Committee and the Group Internal Audit function at its December meeting, as well as considering whether the feedback identified in the previous year's assessment had been adequately addressed. The 2022 evaluation indicated that the Committee was working effectively and identified opportunities for the 2023 Committee work plan, which have been appropriately included and are set out below.

Looking forward

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

– Monitor the design and rollout of automated controls testing
– Oversee the external auditor transition
– Conduct a deep dive into supplier payment terms
– Progressive implementation of assurance policy including the assurance of sustainability data.

Signed on behalf of the Audit and Risk Committee by:

Nicholas Bull
Chair, Audit and Risk Committee
1 March 2023

Areas of focus in 2022		Key stakeholders
Corporate reporting	– Half and full year external reporting – Interim and preliminary results announcements – Annual Report and consolidated financial statements – Review of tax and statutory filing status	SHAREHOLDERS
Internal controls	– Group Internal Audit updates – Bi-annual review of internal financial controls – Monitoring agreed actions status – Group Internal Audit resourcing reviews – Update on HR related controls compliance	EMPLOYEES SHAREHOLDERS
Risk management	– Litigation, cyber, expenses and tax risk reviews – Bi-annual risk review including environmental compliance – Review of governance of reporting of acquisitions – Horizon scanning for changes to regulatory environment for audit – Sanctions update including review of Company's ways of working to ensure compliance	CUSTOMERS EMPLOYEES ENVIRONMENT SHAREHOLDERS SUPPLIERS
External audit	– External audit tender – Report on external audit at half and full year – Insights and observations on reporting review – Auditor independence and non-audit work reviews – Review of management representation letters – Review of fees of external auditor – Auditor effectiveness review	CUSTOMERS EMPLOYEES SHAREHOLDERS SUPPLIERS

Nomination Committee report

David Gosnell

(Chair)

Member since 2015

Nicholas Bull

Member since 2015

Steve Murray

Member since 1 September 2022

Heather Lawrence

Member since 7 November 2022

Fran Philip

Member since 2016

Echo Lu

Member since 2017

Jakob Sigurdsson

Member since 2020

Dear Shareholder,

On behalf of the Nomination Committee, I am pleased to present this report for the year ended 31 December 2022. As set out elsewhere in this Annual Report, 2022 was a year of transformation for the Group. The Board has also seen changes with Anne Fahy stepping down at the 2022 AGM and Nicholas Bull succeeding her as Chair of the Audit & Risk Committee (ARC). Following rigorous recruitment processes as set out in this report, Steve Murray was appointed to the Board as a Non-Executive Director on 1 September and Heather Lawrence joined as a Non-Executive Director and Chair Designate of the ARC on 7 November.

The Committee, at times in discussions conducted as part of scheduled Board meetings, has also considered the pipeline for senior management and Group Executive Committee (GET) succession planning following the changes resulting from the implementation of the Strategic Projects, and the acquisitions of Texon and Rhenoflex. This will be a continued focus in 2023 as the Group transitions to its new divisional operating model and revised succession planning is required.

At the core of all discussions, the Committee and Board as a whole have focussed on maintaining the desired culture of the Group while achieving the footprint and business model required for the Company's long-term success in the current challenging climate.

The Committee continued to fulfil its other core responsibilities by keeping Board composition under review, including reviewing director independence, the balance of skills and experience of the existing Non-Executive Directors and tenure to allow the necessary recommendations to be made for election and re-election of Directors to shareholders. The Committee also considered the structure of the Board Committees and continued to consider its own effectiveness.

During the year, the Committee met once in a separately scheduled meeting, with further discussions taking place as part of scheduled Board meetings, and all Committee members attended all the meetings possible they were eligible to attend. Further details of individual Directors' attendance can be found on page 69. You can read more about the skills, tenure and experience of the members of the Committee on pages 61 to 63.

Non-Executive Director recruitment

The recruitment process for Non-Executive Directors, undertaken for the processes resulting in the appointment of Steve Murray and Heather Lawrence in 2022, included agreeing the criteria for the candidate profiles noting the desire for a successor for the role of the Chair of the ARC and the benefits of having more direct industry experience on the Board, and identifying the most appropriate interview panel to lead the process. In 2022, Russell Reynolds, a professional search agency with no connection to the Company nor any Director, was engaged to create a comprehensive and diverse long list of candidates for both individual roles. Russell Reynolds was appointed in accordance with the Company's procurement policy based on its expertise relative to each role. The shortlisted candidates were then interviewed, and appropriate due diligence was undertaken to ensure the appropriate fit with the requirements including consideration of candidates' skillset and experience, their ability to contribute across the requisite range of Board topics, whether their appointment was in line with the Board's diversity aims and whether they could meet the expected time commitment.

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.
- Oversight of the diversity and inclusion-related elements of ESG.

Key responsibilities

- Ensuring the appropriate composition of the Board and its Committees and overseeing a rigorous and transparent procedure for appointments to the Board.
- Maintaining ongoing succession plans for the Board and GET and reviewing the leadership needs of the organisation.
- Ensuring diversity in the pipeline for senior management roles.

Highlights of 2022

- Recruitment of Chair Designate of the Audit & Risk Committee and another Non-Executive Director.
- Executive succession planning.

Areas of focus for 2023

- Board succession planning for key Board roles.
- Reviewing executive and senior management role succession plans and talent pipelines following organisational change in 2022.
- Continued monitoring of culture and DE&I programmes.

Nomination Committee report cont.

Recommendations were then made to the Board. In the case of Executive Director or GET appointments, an executive leadership assessment would be carried out by an external professional agency.

Any new Directors are appointed by the Board and, in accordance with the company's articles of association, they must be elected at the next AGM to continue in office. All existing Directors stand for re-election every year.

Board direction induction programme example

Effectiveness
- Training on ethics and other governance topics
- Briefed on outcomes of most recent effectiveness review

Leadership
- Meeting senior executives
- Site visits

Accountability
- Information on the Group budget and strategy
- Last Annual Report

Relations with stakeholders
- Meeting with employees during site visits
- Meeting with key customers

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. 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. The Committee continued to develop the skills matrix to provide a detailed and transparent assessment of the current skill set on the Board and identify any training needs. During 2022, the Board undertook all required regular training for Coats' employees, as well as receiving tailored training updates at Board and Committee meetings for specific topics as appropriate. A summary of the skills matrix is set out below:

Criteria

↓

PLC leadership experience

↓

Relevant functional experience

↓

Specific value-added expertise

↓

Relevant sectoral experience

↓

Geographic experience

Following Anne Fahy stepping down from the Board, there was a temporary period of non-compliance with provision 24 of Code as there were only two members of the ARC. This position was resolved following the recruitment of Steve Murray. After careful consideration, it was agreed that it was preferable to proceed with the two existing members of the ARC forming quorums for meetings until the recruitment process for a new Non-Executive Director, which was already in train and culminated in the appointment of Steve Murray, was concluded. In fact, given the timing of Steve's appointment, only one meeting was convened with the quorum of two. The recruitment of Heather Lawrence further strengthens the succession plan for the ARC.

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 review of the progress on Group CEO succession plans and in 2022 a number of members of the GET were given the opportunity to observe and participate in a full Board meeting to enhance their understanding of the Board ways of working and to allow the Board greater face-to-face contact. Chair succession planning has been undertaken with discussions underway considering the appropriate timing and approach. There were also regular considerations of talent changes in the business at the Board as part of the conversations regarding the Strategic Projects, the divestment of the Brazil and Argentina business and the acquisitions of Texon and Rhenoflex. These allowed timely feedback to be made to management.

Diversity

The Board acknowledges the important role growing talent internally plays in our diversity ambitions, aligning with the Board's own diversity policy, which encourages our leadership to contribute to the development of a diverse range of future leaders. During 2022, the Board considered proposals regarding the Company's new 'Coats for All' initiative, together with the Group's 'Future of Work' framework policies and leadership packs (see the People and Culture section on pages 16 to 17 for further information).

These new tools support the achievement of the Company's aspirations for DE&I and wellbeing, which contribute to us realising our overall strategy and objectives to facilitate our long-term sustainable success. Diversity creates innovation, which is core to Coats' culture and business model. The 'Coats for Her' programme utilises the passion and experience of some of our senior leaders across five initiatives designed to support women in our workplace from recruitment, through mentoring and leadership training and during any return-to-work processes. The Board has approved new 2026 sustainability targets linked to the senior management Long Term Incentive Plan (LTIP).

The Board supports the recommendations of the FTSE Women Leaders Review (formerly the Hampton-Alexander Review) on gender diversity and the Parker Review on ethnic diversity and continues to monitor developments in these areas. We are aware of the forthcoming Listing Rule requirements relating to diversity and we have started to gather information from our employees on a voluntary basis. This will continue to be a focus in 2023. Ahead of the forthcoming Listing Rule changes, I am pleased to confirm that we have 44% female representation on the Board, including our Chief Financial Officer, Jackie Callaway, and there are two Directors from an ethnic minority background. Accordingly, as at 31 December 2022, we are in line with the recommendations of the FTSE Women Leaders Review and the Parker review and we are currently in line with the targets set out in our refreshed diversity policy (see page 79).

Nomination Committee report cont.

Please see below for some insights based on the data collected in 2022.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management (GET and direct reports)	Percentage of executive management (GET and direct reports)	Number of employees in the Group	Percentage of employees in the Group
Men	5	56%	3	38	70%	13,266	65%
Women	4	44%	1	16	30%	7,081	35%
White British or other White	7	78%	n/a	–	–	–	–
Asian/ Asian British	2	22%	n/a	–	–	–	–

We define our senior management team as employees that are band three or above in the organisation (Senior Management). As at 31 December 2022, there were 37 women (21%) and 139 men (79%) in Senior Management. You can find further details in relation to the diversity of our Group in our Sustainability Report (**www.coats.com/sustainability**). Our refreshed Board Diversity 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. Our refreshed Board diversity policy aligns with the new Listing Rule benchmarks and has been expanded to include reference to knowledge and understanding of relevant diverse geographies, peoples and their backgrounds and includes, and is not limited to, race, socio-economical, educational and professional background, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality, work-style and cognitive and personal strengths. Our workforce diversity policy is included in our Coats Key People Principles, which set out the range of policies to ensure fair and equitable treatment of our diverse workforce. The diversity section includes the same definitions and references as our Board policy and aims to promote an inclusive working environment. You can access our Coats Key People Principles on our website (**https://www.coats.com/en/Download-Centre**).

REFLECTIONS ON INDUCTION BY HEATHER LAWRENCE

What were the highlights of your induction?

The highlight of my induction was the Global Leadership Conference and plant tour in Bursa. The plant in Bursa produces for all three divisions and also has an Innovation Hub where you can really understand how Coats listens to the needs of its customers and develops the next generation of products.

Who did you meet?

As well as the GET, I was able to meet a diverse group of Coats employees from around the world and hear their perspectives. Coats' greatest strength is the calibre of its people and the collaborative way they work together to achieve its purpose.

What did you learn?

I heard from the GET what they are working to achieve, the challenges they may face and how they are preparing for those challenges. I learned about Coats' manufacturing systems and processes and got into the detail of its sustainability agenda and how it is working to meet its ambitious 2030 goals. I was also able to familiarise myself with the financial aspects of the business.

Independence and overboarding

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. 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 its Non-Executive Directors continue to demonstrate independence.

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.

Committee performance and effectiveness

The Committee's effectiveness in respect of the year ended 31 December 2022 was evaluated by Independent Audit Limited, an external service provider, in line with the Code requirements. You can read more about this on page 70. The Committee also considered the key points that were identified in the previous year's assessment. The Committee, as part of a discussion on the full Independent Audit Limited report conducted at a Board meeting, discussed the key themes of the areas identified for further focus, which included executive succession and DE&I monitoring, and these are appropriately reflected in the 2023 workplan for the Committee.

REFLECTIONS ON INDUCTION BY STEVE MURRAY

What were the highlights of your induction?

All my sessions were highly informative. Through meeting with a thoughtful cross section of executives by business area and function, I feel I came away with a good understanding of Coats' business.

Who did you meet?

In addition to the GET, I met members of the Finance and Sustainability functions as well as GIA. I also met with several of the Company's advisors. Additionally, I completed various interactive compliance trainings covering a range of topics from cyber security awareness to modern slavery.

What did you learn?

The background information provided via my induction programme helped to put the reasons and objectives behind the re-structure of the organisation into three divisions – Apparel, Footwear and Performance Materials – into proper context.

Signed on behalf of the Nomination Committee by:
David Gosnell

Chair, Nomination Committee

1 March 2023

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 17 May 2023 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 61 to 63 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 85 to 97.

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 64 to 68. Information on compensation for loss of office is contained in the Directors' Remuneration Report on page 92.

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 145,257,039 (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 2022) of its own Ordinary Shares was granted at the 2022 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 2022 AGM. 14,524,000 shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2022 was approximately £79,890,520 divided into 1,597,810,385 Ordinary Shares.

Since 31 December 2022, 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 2023 is 1,597,810,385 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 2022 is set out in the Directors' Remuneration Report on page 93.

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

Directors' report cont.

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 2022*	As at 1 March 2023*	Nature of holding
Liontrust Investment Partners LLP	10.52	10.52	Direct
Kempen Capital Management N.V.	7.49	7.49	Indirect
FIL Limited	6.12	6.12	Indirect
M&G Plc	5.30	5.30	Indirect
Invesco Ltd	5.05	5.01	Indirect

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

The Company has not been notified of any other substantial interests in its securities. The Company's substantial shareholders do not have different voting rights. The Group, as 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 (2021: £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 via an externally hosted web service whistleblowing hotline. 'Doing the right thing' and ways to raise concerns are regularly communicated and discussed.

During the year ended 31 December 2022, there were 97 whistleblowing concerns raised (2021: 98). Of these concerns raised, following investigation 22% (2021: 30%) of the closed cases were upheld and 7 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. An independent review of the Group's whistleblowing policy and associated processes is currently being conducted to ensure these continue to align appropriately with best corporate governance practice.

Concern is raised via whistleblowing procedure

Acknowledgement is sent to the whistleblower within seven days of receipt of the concern.

↓

The investigation team, independent of the relevant operational business or function, is nominated by the CFO, Chief Legal & Risk Officer and Group Company Secretary, Chief Human Resources Officer and the relevant Group Executive Team member.

↓

Allegation is investigated by the nominated team

Findings are presented to the CFO, Chief Legal & Risk Officer and Group Company Secretary, Chief Human Resources Officer and the relevant Group Executive Team member who decide appropriate remedial actions and any controls/process enhancements.

↓

The outcome of the investigation is appropriately communicated to the whistleblower once any remedial actions and/or any controls/process enhancements (even in circumstances where the allegation has not been upheld) have been determined.

↓

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

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

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

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.

Directors' report cont.

Results and dividends

The results of the Group are shown on page 114 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 is pleased to propose a final dividend of 1.73 cents per share (2021 final dividend:1.50 cents). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2023 to ordinary shareholders on the register at 28 April 2023, with an ex-dividend date of 27 April 2023. Alongside the interim dividend of 0.70 cents per share, this makes a total of 2.43 cents per share for the full year 2022.

Greenhouse gas (GHG) emissions

Absolute emissions for last 3 years plus 2019 baseline

Thousands of tonnes of CO_2e		2022[1]	2021	2020	2019
Scope 1 Direct[2]		**54.1**	62.7	51.3	64.6
Scope 2 Indirect[3]	Location Based	**200.1**	216.1	186.2	235.3
	Market Based	**158.1**	190.7	165.9	209.2
Scope 3 Value Chain[4]		**777.6**	891.3	671	849.2

1 2022 data includes Brazil and Argentina prior to their divestment (data included to May). Texon for Scopes 1 & 2, data from August and Rhenoflex data from September. Texon and Rhenoflex Scope 3 data is not yet included as the full inventory for these units has not been completed. All data is calculated following GHG Protocol guidelines.

2 Direct emissions relate to the use of fuels to generate energy on group facilities, mainly the use of oil and gas to generate heat in the form of steam for use in processing. On-site generation of electricity using diesel or gas fired generators and the use of diesel, petrol and LPG for on-site transport is also included. The calculation methodology here is to convert fuel purchased in each country to kWh and then to CO_2e equivalent using DEFRA conversion factors; the data is consolidated globally.

3 Indirect emissions relate mainly to the purchase of electricity from third party suppliers. This is mostly taken from local electricity grids, but does include some on-site generation of electricity or steam from third party suppliers. The methodology converts the electricity or other purchased energy from kWh to CO_2e using the country level conversion factors published by the International Energy Authority (IEA) for electricity and DEFRA conversion factors for other energy types. This provides the location based calculation. Market based calculation deducts any certified renewable energy that is purchased by country and continues to calculate the residue of the energy consumed at the IEA country or DEFRA conversion factors as appropriate. The data is then consolidated globally.

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. The methodology for this varies for each Scope 3 category and follows the GHG Protocol hierarchy of data quality to determine the best available inventory calculation approach. Calculation models are maintained for each individual category and are updated annually as required and consolidated globally.

Scopes 1 and 2 combined emissions on a market based approach decreased by 16% compared to 2021. On a pure like for like basis, excluding Brazil and Argentina divestments and Texon and Rhenoflex acquisitions for both years, the reduction in 2022 was 18% compared to 2021, attributable to three principal factors: production volumes on a like for like basis which declined by 10% in 2022 due to the textile industry slowdown in the second half of the year; our continued efforts to reduce energy consumption (described in more detail below); and our progressive transition to Scope 2 energy through the purchase of renewable electricity.

Scope 1 and 2 emissions from our four UK offices plus the newly acquired Texon site in Skelton (from August) in 2022 were 431 tonnes CO_2e and represented 0.2% of our global emissions, compared to 0.02% in 2021. The tenfold increase shows the impact of the addition of the Skelton manufacturing site, whereas all the other sites are offices.

Emissions Intensity[1]

Greenhouse gas emissions intensity per unit of production

kg CO_2e per kg of finished product	2022[3]	2021[3]	2020[3]
Scopes 1&2[2]	**2.23**	2.67	2.87
Scope 3	**9.39**	9.40	8.86

Greenhouse gas emissions intensity per sales value

tonnes CO_2e per million $ sales	2022[3]	2021[3]	2020[3]
Scopes 1&2[2]	**132**	169	187
Scope 3	**511**	593	577

1 We have used these two ratios for several years. The first uses volume of finished goods production in tonnes (Kilo tonnes used for Scopes 1&2 are 2022 95, 2021 95, 2020 76) and hence relates directly to the industrial activity that drives emissions, while the second uses group turnover and hence relates to overall commercial activity. Since Scope 3 emissions data does not include new acquisitions the production volume used for 2022 intensity is 83 kilo tonnes; there is no change to 2021 and 2020 production. For Scope 3 value intensity, 2022 sales excluding new acquisitions were $m 1,522.9. 2019 is not used as a baseline for these intensity metrics as that year is only our baseline for our absolute Science Based Targets.

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

3 Overall these figures do not provide a like-for-like comparison as they include Brazil and Argentina up to May 2022 and Texon and Rhenoflex from August and September 2022 respectively.

The Scopes 1&2 volume emissions intensity shows a 17% drop between 2021 and 2022. 8% is due to reduced energy use and transition to renewables in Coats operations, 9% is due to significantly lower emissions intensity of the Texon and Rhenoflex businesses. These businesses have lower energy consumption per unit of output and have also made progress towards transitioning to renewable indirect energy. Scope 3 volume intensity decreases marginally compared to 2022, mainly reflecting material stock movements between the years.

The overall value intensity for Scopes 1&2 emissions reduced 22% compared to 2021, a 17% reduction on a like for like basis, excluding acquisitions in 2022. As for volume the Texon and Rhenoflex emissions value intensity is lower than for the rest of the Coats business. The difference between the volume and value intensity reductions for the Coats business is due mainly to movements in price and mix.

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

Energy Consumption

Million kWh	2022[1]	2021	2020
Direct (Fuels)	**284.9**	319.7	260.3
Indirect (bought electricity and steam)	**446.1**	481.1	409.2
Total	**731**	800.8	669.5

1 2022 data includes Brazil and Argentina prior to their divestment (May), Texon data from August and Rhenoflex data from September.

Our principal global activities to reduce energy consumption were based on the insights provided by our detailed energy monitoring pilot project that ran in 7 sites during the year. The results allowed us to identify new areas of energy wastage and to see where increased efficiency in energy use was possible. Multiple initiatives were developed through this programme and replicated from pilot sites to other areas which may also benefit. Two examples are: first, we found that ovens in bonding machines consumed a lot of energy when the machines were idle, so we programmed more effective energy cut-off protocols to significantly reduce consumption in this phase.

Directors' report cont.

Second, we identified that by extending the centrifuge cycle and reducing the microwave drying process, we reduced the overall energy consumed in drying thread post-dyeing. Our continued efforts to reduce water consumption led to energy savings, both in terms of the energy needed to pump water through multiple stages of use, but also using less heat energy to bring the water to the temperature needed in the dyeing processes where it is mainly used. As a result of these two principal projects our overall energy intensity reduced by 4% compared to 2021 (from 8.6 kWh/kg to 8.3). In 2021 we had just started to use granular energy monitoring to pinpoint reduction targets, so the benefits that year were less, and most of the improvements we achieved were due to water saving measures (as also in 2022) and a focussed drive in energy reduction activities in our Indian spinning mills.

Energy consumption in our four UK office locations and the newly acquired Texon plant in Skelton in 2022 was 2,270 MWh and represented 0.3% of our global energy consumption. This compares to 0.04% in 2021 due to the acquisition of a new factory during 2022.

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 collated monthly from all units, based on metered or invoiced consumption converted into kWh. We use DEFRA published gross calorific value conversion factors to standardise emissions.
Scope 2	Electricity or steam purchase volumes are collected from all units monthly. All electricity kWh 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 using 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. Products & Services, Upstream Energy and Transport are the main components of Scope 3 emissions. More detail on methodology is available in our **Sustainability Report** online.

Auditor

A resolution to appoint Ernst & Young LLP as auditor will be proposed at the 2023 AGM. More information about the competitive audit tender process that was undertaken in 2022 can be found on page 75 in the Audit and Risk Committee Report.

A statement in respect of the current auditor, Deloitte LLP, 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, as 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 173.

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	166
Likely future developments in the business	10, 28 to 29
Exposure to price risk, credit risk, liquidity risk and cash flow risk	159
Research and development	28 to 29
Information on financial instruments	159
Environmental policy	24 to 25
Employment of disabled persons	17
Employee involvement	32, 39 to 41
Stakeholder engagement	32 to 34
Diversity policy	78 to 79

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

On behalf of the Board

Stuart Morgan
Company Secretary

1 March 2023

Directors' report cont.

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 financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with United Kingdom adopted international accounting standards. The Directors have chosen 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 IFRS 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 1 March 2023 and is signed on its behalf by:

Rajiv Sharma
Group CEO

1 March 2023

Remuneration Committee report

Echo Lu

(Chair)

Chair from May 2021

Member since 2017

Nicholas Bull

Member since 2015

Fran Philip

Member since 2016

Steve Murray

Member since 1 September 2022

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 Directors' Remuneration Policy (the 'Policy').
– Ensuring the competitiveness of reward.
– Designing the incentive plans.
– Setting incentive targets and determining award levels.
– Reviewing workforce remuneration and related policies and the alignment of incentives and rewards with business strategy and culture.

Dear Shareholder,

As Chair of the Committee, I am pleased to present the Directors' Remuneration Report for 2022. This report consists of three parts: this letter summarising the work of the Committee and the decisions made, the Annual Report on Remuneration for 2022 (the 'Report'), and the updated Directors' Remuneration Policy (the 'Policy'). This letter and the Report will be subject to an advisory vote from shareholders at the 2023 AGM, whilst the Policy will be subject to a binding vote.

Highlights of 2022

– Reviewing the effectiveness of the current Policy ahead of the 2023 AGM.
– Considering the implementation of the current Policy for 2023, including amendments to performance measures and weightings.
– Consultation with investors on the proposed Policy and the proposed implementation for 2023.
– Reviewing remuneration arrangements within the wider workforce including the annual review of our global Living Wage policy.
– Appointment of a new independent advisor to the Committee.

Areas of focus for 2023

– Overseeing the implementation of the new Policy, subject to approval at the 2023 AGM.
– Reflecting on the feedback received from investors and the voting results following the 2023 AGM.
– Setting incentive targets in a volatile macro environment to ensure alignment with strategy and shareholder interests, as well as to ensure fairness and transparency.
– Continuing to review workforce remuneration policies to support our environmental, social and governance strategy as well as our diversity, equity and inclusion objectives.

Workforce context

During the year the Committee continued to oversee remuneration arrangements that operate across the Group. This included an in-depth review of the pay and benefits policies of our major markets and overseeing the extent to which support was provided in our markets with critically high levels of inflation. The Committee reviewed the operation of the Living Wage policy globally and increased the minimum levels to ensure that they reflected levels of inflation. A review was undertaken to ensure that no employees were paid below the Living Wage.

Salary increases for the Executive Directors and the senior executive team were approved considering the increases that were being applied to the local workforce in each location that they were based.

Fran Philip, our Designated Non-Executive for Workforce Engagement continued her programme of meetings with our employees in all our local markets and employees were encouraged to discuss our approach to remuneration.

Incentive structures are aligned within the Coats business so that the key metrics that apply to senior management compensation are applied consistently at all levels of the organisation.

2022 remuneration outcomes

The 2022 annual bonus outcome reflects strong business and financial performance detailed in this Annual Report. The annual bonus measure for Sales and Free Cash Flow reflected a performance at maximum and reflected the actions taken in 2022 to implement pricing and self-help initiatives. The bonus award for EBIT reflected a target level of performance.

The LTIP20 award vested at 18.2%. Targets for the 2020 LTIP were, unlike many other companies who delayed target setting, set prior to the onset of the pandemic and were therefore challenging as they did not consider the material impact the pandemic would have over the three-year performance period. Consequently the Earnings Per Share target and cumulative Free Cash Flow measures did not meet their minimum threshold targets.

Remuneration Committee report cont.

Total Shareholder Return performance was encouraging and reflected the growth in the company's share price and our strong dividend growth. Sustainability is at the heart of our company purpose and strategy and I am pleased to confirm that, overall the Sustainability targets were achieved and 10% of the award vested in full.

In determining vesting, the Committee considered the potential for windfall gains and concluded that the value on vesting of the 2020 awards did not benefit from windfall gains. In reaching this conclusion the Committee noted that following the first half of 2020 our share price recovery had been consistent through the balance of the three year performance period (i.e. performance has been a result of robust underlying financial performance as opposed to any short-term change in market sentiment. Furthermore, the targets were, unlike many other companies, set prior to the onset of Covid, with no delay to the target setting process nor to the date of grant of the award. This ensures that the above vesting is considered a fair and balanced result by the Committee. Accordingly, the Committee did not use any discretion in connection with the 2020 award.

The Committee considered the formulaic outcome under both the annual bonus and LTIP to appropriately reflect the financial and non-financial performance of the business over the performance periods, and therefore the Committee did not apply its discretion to adjust the formulaic outcomes.

The Committee can confirm that the current Policy approved at the 2020 AGM was implemented in 2022 as the Committee originally intended and was working effectively.

In reaching this conclusion, the Committee considered the absolute levels of remuneration earned at executive level across the group and also the performance and relative amounts paid.

Directors' Remuneration Policy review

The existing Policy which was approved at the 2020 AGM will reach the end of its three-year cycle at the 2023 AGM. During 2022 the Committee undertook a review of the effectiveness of the existing Policy in supporting business strategy and considered whether it continued to align to both market and corporate governance best practice.

The review confirmed that the existing Policy structure remains appropriate given our growth focused strategy and performance culture. As a result, the Committee is not proposing to make any substantive changes to the existing Policy although a number of minor changes are proposed to ensure our Policy aligns with current market best practice.

There were a range of factors noted by the Committee in reaching the decision to roll over the existing Policy. Firstly, steps had already been taken to align Executive Director pension provision with that of the wider workforce. Secondly, our policy takes account of current institutional investor 'best practice' expectations. Finally, the policy continues to appropriately support our long-term business strategy.

Stakeholder engagement

Although no material changes are proposed to the Policy, ahead of the 2023 AGM we have undertaken an engagement process with our largest investors as well as major proxy voting agencies, to understand their views on our policy and its proposed implementation in 2023.

Based on feedback received to date, investors were supportive of the existing Policy being rolled forwards and understood the rationale for the proposed implementation of the Policy in 2023.

Implementation of Policy for 2023

The key decisions taken in respect of 2023 implementation were as follows:

Chief Financial Officer remuneration – to better align Jackie Callaway to market levels, and to reflect her skills and experience which have developed since her appointment in December 2020, the Committee considers it appropriate to reposition her remuneration package to a level that now reflects this proven experience, calibre and demonstrated performance. As a result, the Committee is to increase her bonus opportunity to 125% of salary (from 115% of salary). This change moves both her total incentive opportunity (set as a percentage of salary) and total target remuneration to within the typical market range for a company of comparable size in the FTSE 250 The revised annual bonus opportunity is within the approved limits of our existing Policy which has a maximum of 150% of salary and she will continue to receive 60% of her bonus paid in cash and 40% deferred into Company shares for a period of three years.

Adjustments to annual bonus and LTIP performance measures – we are to make modest revisions to the performance metrics for 2023 to ensure they reflect the Board's current short to medium term priorities.

The performance metrics for the 2023 annual bonus plan are to be rebalanced to reflect our focus on maximising profitability and cash generation while continuing to deliver organic sales growth. To support the increased internal focus on strong profitability and cash generation, we are adjusting the weighting of our current performance measures so that EBIT and Free Cash Flow will each have an equal weighting of 35% of the total bonus opportunity (2022: 30% and 20% respectively), with Group Sales weighted at a reduced 10% (2022: 30%) and individual strategic objectives remaining at 20%. The choice and balance of measures remain fully aligned with our growth strategy but take account of current market conditions.

For the long-term incentive, we will increase the weighting on relative TSR performance so that TSR and EPS have an equal weighting of 30% (2022:20% and 40% respectively) and replace the current measure of Free Cash Flow with three-year average cash conversion with an unchanged weighting of 20%. This change will ensure that cash remains a key long-term focus but with a greater emphasis on operational efficiency as opposed to the level of absolute cash generated which is captured through the annual bonus measure.

Base salary – as of 1 January 2023:

CEO (Rajiv Sharma) – £662,000

CFO (Jackie Callaway) – £411,000

The above salaries have been in operation since 1 July 2022 when they were increased by 5% in line with the UK workforce budgeted increase. The Committee is aware of institutional investor guidance in relation to 2023 salary increases considering current relatively high inflation rates in the UK and will consider this guidance at the same time as the need to recognise the performance, experience and calibre of the Executive Directors.

Remuneration Committee report cont.

Pension – the pension provision for the CEO reduced from c20% of salary to the typical rate of pension provision for the UK workforce of 12% from 1 January 2023. No change is to be made to the CFO's pension provision which is already 12%.

Annual bonus – the maximum annual bonus opportunity will remain at 150% of salary for the CEO and be set at 125% of salary for the CFO with 50% deferred into shares for the CEO and 40% for the CFO. The deferral period is three years. The performance metrics are as detailed above.

The targets for the annual bonus will be disclosed retrospectively in next year's Remuneration Report. The Committee is comfortable that the targets set for 2023 reflect our business objectives and are appropriately stretching relative to prior years and current market conditions.

LTIP – the long-term incentive awards are expected to be granted at 175% and 150% of salary for the CEO and CFO respectively with awards vesting subject to three-year performance targets relating to EPS (30%), TSR (30%), Cash Conversion (20%) and Sustainability (20%).

Sustainability is at the heart of our Company purpose and strategy. Following the approval of new Science Based Targets in December 2022 the LTIP Sustainability measures and targets for the period 2023 to 2025 have been aligned to the longer term measures and goals. Coats' Remuneration Policy creates the right balance between financial and non-financial performance and between short term objectives and long term strategy.

Committee membership

I was delighted to welcome Stephen Murray to the Committee from September 2022 following his appointment to the Board.

Conclusion

The Committee is satisfied that the decisions made during 2022 reflect the financial and non-financial performance of the Group during the year and balances the interests of all key stakeholders.

I would like to thank those shareholders who provided feedback during the consultation process, as it was my first consultation as Chair of the Remuneration Committee I found the process very valuable. I look forward to receiving your support for both our new Policy and the Annual Report on Remuneration at our 2023 AGM.

Echo Lu
Chair, Remuneration Committee
1 March 2023

“Coats' Remuneration Policy creates the right balance between financial and non-financial performance and between short term objectives and long term strategy”

Echo Lu
Chair, Remuneration Committee

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.

The Remuneration Committee is responsible for ensuring that any variable remuneration for Executive Directors is suitably motivational and encourages Executive Directors to meet stretching financial and non-financial performance targets with an acceptable degree of risk.

The Committee's policy is that remuneration and benefits are sufficiently competitive relative to appropriate peers, 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
- Ensures that Remuneration appropriately reflects and incentivises the Company's Sustainability goals

Remuneration Committee report cont.

Remuneration Policy summary (Executive Directors)

Element	Key features of policy
Fixed base and benefits	– Base salary is benchmarked against the FTSE250 and a selected comparator group of similar size and complexity – Benefits benchmarked to local market practice and reflect the nature of the Executive's role – Pension benefits aligned to the workforce where the role is based
Annual bonus	– 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	– 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	– 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

	2022	2023	2024	2025	2026
Base salary/Benefits/Pension	Cash & benefits				
Short-term incentive	Cash	Deferred shares			
Long-term incentive	Performance Period			Holding Period	

Summary implementation in 2022

Fixed remuneration	Implementation in 2022
Base salary 1 July 2022 review	– Increase of 5% for Rajiv Sharma and Jackie Callaway – Aligns to the average for the UK workforce of 5%
Pension benefit Aligned to the UK workforce	– For Rajiv Sharma fixed at £122,400 per annum until 31 December 2022 reducing to 12% from 1 January 2023 – For Jackie Callaway 12% of salary
Annual bonus Performance measures: Sales: 30% EBIT: 30% Free Cash Flow: 20% Personal objectives: 20%	– 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 2022 shown on page 89
Long term incentive Performance measures: EPS growth: 40% Cumulative Free Cash Flow: 20% Total Shareholder Return: 20% Sustainability: 20%	– 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 2022-2024 on page 91

Directors' remuneration report
for the year ended 31 December 2022

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 information has been audited by Deloitte LLP.

The Annual Report on Remuneration will be subject to an advisory vote and the Directors' Remuneration Policy will be subject to a binding vote at the AGM on 17 May 2023.

Executive Directors

Two Executive Directors were employed during 2022. Rajiv Sharma was appointed to the Board on 2 March 2015 and was appointed as Group Chief Executive with effect from 1 January 2017. Jackie Callaway was appointed to the Board on 1 December 2020 and appointed as Chief Financial Officer on 31 March 2021.

Single total figure for Executive Directors' remuneration for 2022 (audited information)

	Rajiv Sharma		Jackie Callaway		Total	
£000	2022	2021	2022	2021	2022	2021
Base salary	646.2	621.3	401.3	385.8	1,047.5	1,007.1
Benefits	41.4	47.4	21.3	15.7	62.7	63.1
Other	–	50.0	–	100.0	–	150.0
Pension	122.4	122.4	48.2	46.3	170.6	168.7
Total Fixed	810.0	841.1	470.8	547.8	1,280.8	1,388.9
Annual bonus	834.1	917.4	397.2	420.1	1,231.3	1,337.5
LTIP	191.1	–	–	–	191.1	–
Total Variable	1,025.2	917.4	397.2	420.1	1,422.4	1,337.5
Total	1,835.2	1,758.5	868.0	967.9	2,703.2	2,726.4

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 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 2022 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 was fixed at £122,400 per annum and reduced to 12% of salary with effect from 1 January 2023. By 1 July 2023 the typical UK Company pension contribution rate is 12% of salary
- The value of LTIP awards shown for Rajiv Sharma reflect the vesting of LTIP awards with a performance period ending in 2022. Of the amount shown, £14,324 of this value represents the value attributable to share price growth over the 3 year period

Annual bonus outcome 2022 (audited information)

The annual bonus for 2022 was determined in accordance with the details provided in the 2021 Directors' Remuneration Report. Details of the bonus measures and opportunities are provided in the table below.

The measures were selected to incentivise a balance of outcomes that reflected the strategic priorities for the Group at the beginning of 2022. In particular these were to deliver a strong performance in sales with strong margin 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 2022	Weighting		Achievement		Performance achieved in 2022	
Performance Measure		Threshold *(0% of max)*	Target *(50% of max)*	Maximum *(100% of max)*		Outcome as % of Max
Group Sales $m	30.0%	1,402.2	1,476.0	1,512.9	1,555.0	30%
Earnings Before Interest and Taxation (EBIT) $m	30.0%	188.0	202.0	212.1	202.0	15%
Free Cash Flow (adjusted) (FCF)	20.0%	72.0	87.0	97.0	115.1	20%
Individual objectives	20.0%	–	–	–	See below	19%
Total	**100.0%**					**84%**

Targets are set in relation to budget for the upcoming financial year and the figures in the table above reflect the 2022 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 $58 m for Sales, $9m for EBIT, and $7m for FCF respectively.

Directors' remuneration report cont.

EBIT performance also excludes the impact of acquisitions during the year and strategic and associated projects. The effect was to toughen the targets versus full year reported EBIT.

For the 2022 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 2022 are reflected in the section below.

Personal objectives linked to 2022 bonus

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

Rajiv Sharma:

Objective: to successfully implement the planned 2022 strategic projects.

Outcome: the projects completed in 2022 delivered substantial value to shareholders in terms of cost savings and are on track to deliver $70m by the end of 2024 which significantly exceeds planned expectations, the portfolio optimisation activities were successfully implemented with exits completed in Brazil, Argentina and South Africa and the opening of a new improved facility in Mexico.

Objective: to deliver the 2022 sustainability targets and accelerate recycled and biomaterial use.

Outcome: the Sustainability goals for 2022 were substantially achieved and momentum and focus in this area was increased and culminated in the adoption and approval by the Board of Science Based Targets for 2026. The performance to deliver against our 2022 goals for water recycling, energy usage, effluent quality, Great Place to Work accreditation and waste management was considered by the Committee to be a significant achievement which greatly enhanced Coats' reputation with all our key stakeholders.

The Committee determined the outcome of 19% out of a possible 20% of maximum bonus.

Jackie Callaway:

To complete two material acquisitions and to complete other actions relating to the company's long term portfolio. Other elements of this personal objective remain commercially sensitive.

The two acquisitions of Texon and Rhenoflex were completed efficiently and on time and, in the case of the latter, following a successful and oversubscribed capital raise.

To co-lead the Company's project to realise savings of $50m; to deliver various strategic projects and embed new ways of working.

The savings that have been achieved significantly exceeded our planned expectations and the new operating model has been successfully embedded and the resulting efficiencies significantly delivering longer term benefits.

The Committee determined the outcome of 19% out of a possible 20% of maximum bonus.

Summary 2022 Bonus Outcome

Rajiv Sharma: 126% of salary = £834,120. This is 84% of a maximum bonus of 150%

Jackie Callaway: 96.65% of salary = £397,232. This is 84% of a maximum of 115%.

Long Term Incentive award vesting (audited information)

On 6 March 2020 Rajiv Sharma was granted Long Term Incentive Plan awards in the form of 1,558,573 nil cost options over shares in respect of the performance period 1 January 2020 to 31 December 2022 (referred to as LTIP 2020). Of this amount 18.2% (283,660 options) will vest on 4 March 2023

The performance measures were based upon 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.

LTIP 2020: Performance period 1 January 2020 to 31 December 2022

Measure	Weighting	Threshold *(25% vesting)*	Mid *(62.5% vesting)*	Maximum *(100% vesting)*	Actual	Outcome as % of max LTIP
EPS CAGR	40.0%	5.0%	10.0%	15.0%	4%	0%
Free Cash Flow	30.0%	$296m	$326m	$356m	$253.4m	0%
Total Shareholder Return versus the FTSE 250 excluding investment trusts	20.0%	Median	62.5th Percentile	Upper Quartile	55th Percentile	8.2%
Sustainability	10.0%	*See summary of performance below*				10%
Total						**18.2%**

Summary of performance against sustainability targets

The extent of achievement in performing against the targets set for the 2020 long-term incentive award is set out below. The Committee tested the extent of achievement against the target on an indexed basis. Based on average performance against the targets set (on an unweighted basis), 100% achievement results in the threshold target being met (25% of this part of the award vesting), rising to 100% vesting for 107.5% average achievement against the targets. With 107.5% achievement against the targets, the maximum target of 107.5% was achieved and so this part of the award vested in full.

Directors' remuneration report cont.

Area	Target	Performance	Percentage Achievement of Target
Water usage	Achieve by 2022 a 40% reduction, vs a 2018 baseline, of water usage per kilogram of thread production	Achieved a 38% reduction in 2022 (95% of target).	95%
Energy	Achieve a 7% reduction of kWH per kilogram of product made	Achieved 10% reduction in 2022 (143% of target).	143%
Effluent & emissions	To achieve compliance with Zero Discharge of Hazardous Chemicals effluent standards	Achieved 92% compliance in 2022.	92%
Social	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.	Achieved 86% in 2022. Community activities during various phases of lockdown pivoted to supporting communities and our employees' families.	108%
Sustainability	Reduce waste by 25% and achieve progress towards achieving a goal that all premium polyester thread will be from recycled material by 2024	A 25% reduction in waste achieved in 2022 with substantial growth in use of recycled material	100%
Average achievement			**107.5%**

The Committee considered the Group's overall performance for 2022 and felt that the outcome of 18.2% appropriately reflected the performance of the business during the performance period.

In determining vesting, the Committee considered the potential for windfall gains and concluded that the value on vesting of the 2020 awards did not benefit from windfall gains. In reaching this conclusion the Committee noted that following the first half of 2020 the share price recovery had been consistent through the balance of the three year performance period (i.e. performance has been a result of robust underlying financial performance as opposed to any short-term change in market sentiment). Furthermore, the targets were set prior to the onset of Covid, with no delay to the target setting process or grant of award which was common practice by other companies during 2002. This ensures that the above vesting is considered an exceptional result by the Committee. Accordingly, the Committee did not use any discretion in connection with the 2020 award.

Share awards granted in 2022 (audited information)

The following share awards were granted to Executive Directors during the financial year ended 31 December 2022. The targets for achieving minimum performance for each measure, where these apply, are shown in the table below.

Coats Group plc Long Term Incentive Plan

Executive Director	Date of grant	Number of options awarded	Face value at award date	Award value as a % of salary	Share price to calculate no of shares	% vesting for minimum performance	Performance period	Vesting date
Jackie Callaway	4–Mar–22	904,157	£587,250	150%				
Rajiv Sharma	4–Mar–22	1,698,806	£1,103,375	175%	£0.6495	25%	1 Jan 2022 to 31 Dec 2024	4–Mar–25

The share price shown above, which was 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..

Awards were granted 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. Awards were also granted to approximately 100 senior managers on similar terms. 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 upon exercise.

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 2022 (LTIP 2022) are shown below.

Measure	Weighting	Threshold (25% vesting)	Mid (62.5% vesting)	Maximum (100% vesting)
EPS CAGR	40.0%	5%	12.5%	20%
Total Shareholder Return versus the FTSE 250 excluding investment trusts	20.0%	Median	62.5 percentile	Upper quartile
Cumulative Free Cash Flow	20.0%	$321m	$359m	$396m
Sustainability (see details below)	20.0%	See below	–	See below

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.

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.

Directors' remuneration report cont.

The Sustainability targets were based on targets for the end of 2024 in 3 areas, measured against a 2022 baseline;

1) to achieve an increase in product made from recyclable material. The target is to achieve a growth in sustainable (non-virgin oil based) materials to 40% by 2024;

2) to achieve a reduction in emissions. The target is a pro rata reduction in Scope 1&2 emissions of 11%;

3) to achieve a reduction in water usage. The proposed target is to increase the water recycling rate and achieve a 5% increase.

The Committee will test the extent of achievement against each target shown above. Based on a partial achievement of each measure up to 25% of the award will vest if a minimum threshold performance standard is obtained in all three targets rising to 100% vesting for the achievement of all three.

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

Non-Executive Directors

The base fee was increased by 5% from £60,000 to £63,000 per annum with effect from 1 July 2022 (this was the first increase since 1 October 2013). The fee for the Chair payable to David Gosnell following his appointment on 19 May 2021 remained fixed at the level that was paid to his predecessor.

Single total figure for Non-Executive Directors' remuneration for 2022 (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 round trip subject to a maximum of five trips per annum. Additional fees may be paid for additional duties and time commitments that are undertaken outside the terms of appointment.

	Base fee £000		Supplementary fee £000		Benefits[1] £000		Other fee[2] £000		Total £000		Comments
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	
David Gosnell	**250.0**	177.3	**–**	4.2	**–**	0.6	**–**	–	**250.0**	182.1	
Nicholas Bull	**61.5**	60.0	**18.3**	10.0	**–**	4.2	**1.5**	1.5	**81.3**	75.7	
Anne Fahy	**25.0**	60.0	**5.2**	12.5	**–**	–	**–**	1.5	**30.2**	74.0	Resigned 18–May–22
Heather Lawrence	**10.5**	–	**–**	–	**–**	–	**–**	–	**10.5**	–	Appointed 1–Nov–22
Echo Lu	**61.5**	60.0	**12.5**	8.3	**–**	0.8	**–**	1.5	**74.0**	70.6	
Stephen Murray	**21.0**	–	**–**	–	**–**	–	**–**	–	**21.0**	–	Appointed 1–Sep–22
Fran Philip	**61.5**	60.0	**7.5**	7.5	**–**	0.2	**6.0**	–	**75.0**	67.7	
Jakob Sigurdsson	**61.5**	60.0	**–**	–	**–**	–	**1.5**	1.5	**63.0**	61.5	
Total	**552.5**	477.3	**43.5**	42.5	**–**	5.8	**9.0**	6.0	**605.0**	531.6	

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. Nicholas Bull was appointed Chair of the Audit and Risk Committee in May 2022.

The base fee paid by Coats Group plc is currently £63,000 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.

Payments for loss of office (audited information) & Payments to former Directors (audited information)

There have been no payments for loss of office during the year. No payments were paid to former Directors in the year.

Directors service agreements and appointment letters

All Executive Directors have service agreements which are rolling with an indefinite term and 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.

Directors' remuneration report cont.

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 2022, are set out below.

	Shareholding requirement in 2022			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-22[1]	31-Dec-22[2]	01-Jan-22[1]	31-Dec-22[2]	01-Jan-22[1]	31-Dec-22[2]	01-Jan-22[1]	31-Dec-22[2]
Executive Director											
Jackie Callaway	1,200,000	200%	No	151,606	269,716	–	258,709	942,148	1,846,305	–	–
Rajiv Sharma	2,000,000	200%	Yes	4,439,012	4,596,492	511,684	1,055,858	4,422,071	5,027,626	184,542	346,586
Chair and Non-Executive Directors											
David Gosnell			N/A	1,409,990	1,567,470	–	–	–	–	–	–
Nicholas Bull			N/A	500,000	550,000	–	–	–	–	–	–
Anne Fahy			N/A	40,000	40,000	–	–	–	–	–	–
Heather Lawrence			N/A	–	–	–	–	–	–	–	–
Echo Lu			N/A	15,000	22,874	–	–	–	–	–	–
Stephen Murray			N/A	–	–	–	–	–	–	–	–
Fran Philip			N/A	50,000	75,984	–	–	–	–	–	–
Jakob Sigurdsson			N/A	30,000	77,244	–	–	–	–	–	–

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 2022 which was 66.6p.

The Executive Directors' shareholding requirement must be met within five years of their appointment to the Board (2 March 2020 for Rajiv Sharma, 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 unexercised Long-Term Incentive Plan awards granted to Executive Directors include a requirement to retain any vested shares (save for any shares that may be sold to satisfy income tax liabilities) until a minimum of the fifth anniversary of the date of grant.

Details of scheme interests as at 31 December 2022 (audited information)

Rajiv Sharma

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP20	6–Mar–23	N/A	6–Mar–30	349,640	Unvested	No
DABP22	4–Mar–25	N/A	4–Mar–32	706,218	Unvested	No
Sub-total				1,055,858		
LTIP share options (subject to performance conditions)						
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
LTIP22	4–Mar–25	4–Mar–27	4–Mar–32	1,698,806	Unvested	Yes
Sub-total				5,027,626		
Share options (no performance conditions)						
DABP18	4–Mar–21	N/A	4–Mar–28	184,542	Vested	No
DABP19	4–Mar–22	N/A	4–Mar–29	162,044	Vested	No
Sub-total				346,586		

Jackie Callaway

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP22	4–Mar–25	N/A	4–Mar–32	258,709	Unvested	No
Sub-total				258,709		
LTIP share options (subject to performance conditions)						
LTIP21	5–Mar–24	5–Mar–26	5–Mar–31	942,148	Unvested	Yes
LTIP22	4–Mar–25	4–Mar–27	4–Mar–32	904,157	Unvested	Yes
Sub-total				1,846,305		

Share options (exercised during the year)

No share options were exercised by Directors during the year.

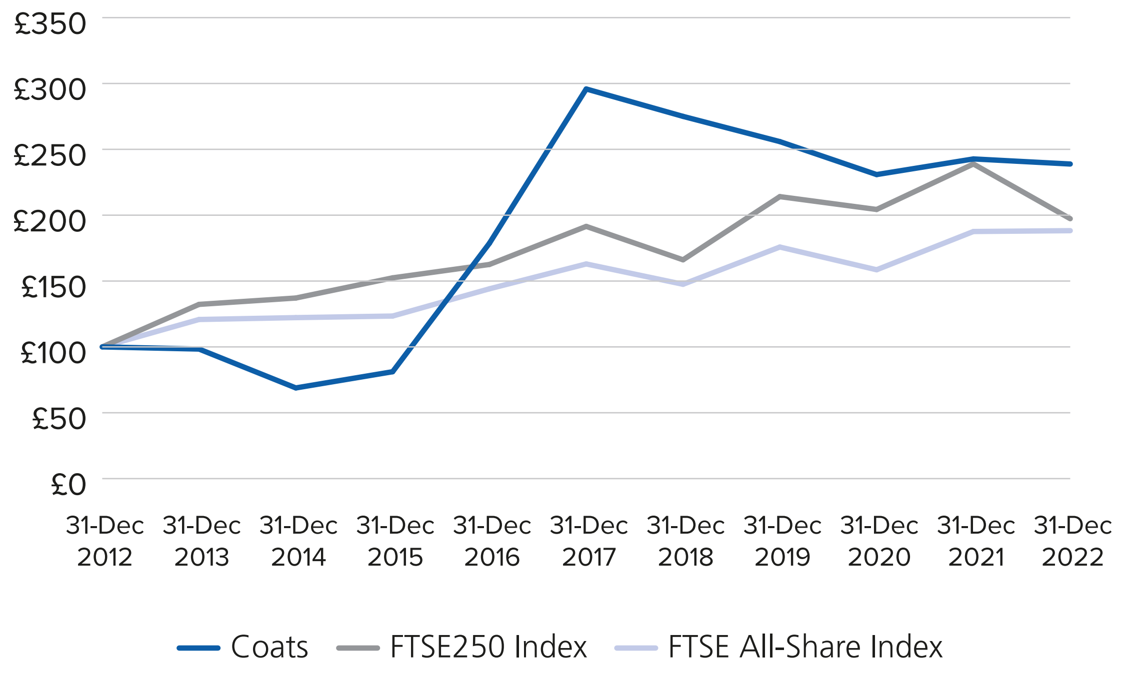
No options have been exercised by any Director between the year end and the signing of this report. No other Directors have entered into any transactions since the year end. The middle market price of Coats Group plc shares at 31 December 2022 was 67.5 pence and the range during the year was 51.2 pence to 81.2 pence.

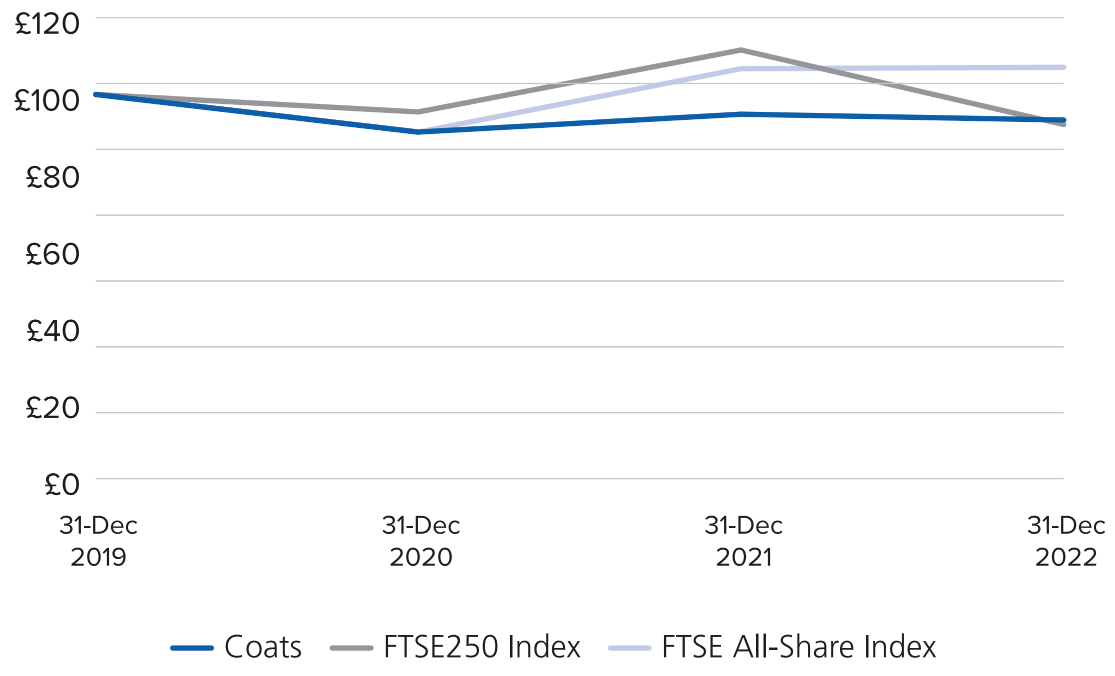
Directors' remuneration report cont.

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 2013 to 31 December 2022. 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 2022.





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

Executive Director	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Name	N/A	N/A	Paul Forman	Paul Forman	Rajiv Sharma	Rajiv Sharma	Rajiv Sharma	Rajiv Sharma	Rajiv Sharma	Rajiv Sharma
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	1,835.2
Annual bonus as a % of maximum opportunity	–	–	87.1%	77.0%	79.5%	66.7%	67.3%	5.0%	97%	84%
LTIP award as a % of maximum opportunity	–	–	–	43.6%	60.0%	84.2%	95.8%	0%	0%	18.2%

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 2022

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[3] (% change)			Bonus (% change)		
	2021 to 2022	2020 to 2021	2019 to 2020	2021 to 2022	2020 to 2021	2019 to 2020	2021 to 2022	2020 to 2021	2019 to 2020
Rajiv Sharma	4.0%	6.9%	–3.6%	–12.7%	25.8%	–46.8%	–9%	1,898.8%	–91.1%
Jackie Callaway	4.0%	1.4%	N/A	35.7%	–0.6%	N/A	–5.5%	100%	N/A
Nicholas Bull	13.7%	4.4%	–5%	0%	0%	0%	N/A	N/A	N/A
Anne Fahy	0%	7.4%	–5%	0%	0%	0%	N/A	N/A	N/A
David Gosnell	37.7%	163.4%	–5%	0%	0%	0%	N/A	N/A	N/A
Heather Lawrence	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Echo Lu	6%	22.5%	–5%	0%	0%	0%	N/A	N/A	N/A
Stephen Murray	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fran Philip	11.1%	2.9%	–5%	0%	0%	0%	N/A	N/A	N/A
Jakob Sigurdsson	2.4%	–6.8%	–5%	0%	0%	0%	N/A	N/A	N/A
Average of all employees[1]	5.5%	3.1%	0%	0%	0%	0%	–12.4%	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 employed by the UK parent company 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 and excludes acquisitions made during the year.
2. 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.
3. To enable comparisons, leaver and joiners figures have been annualised. The figures for David Gosnell, Echo Lu and Nicholas Bull in 2022 and 2021 reflect their increased fees following their appointments as Group, Remuneration Committee and Audit Chairs respectively.
4. Jackie Callaway's increase in benefits reflects the cost of non-taxable insurance benefits for the full year 2022 which were not incurred in 2021.

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 2022	Year to 31 December 2021	% change
Employee costs (US$m)	325.7	344.3	–5%
Distributions to shareholders[1] (US$m)	32.9	27.6	19%
Average number of employees	17,713	16,998	4%
Revenues from continuing operations (US$m) – CER basis	1,583.8	1,361.4	16%
Operating profit pre-exceptional (US$m) – CER basis	234.9	185.4	27%

1. By way of dividends.

Directors' remuneration report cont.

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 2022 and 2021 have been stated on the basis of continuing operations only. Information for 2022 includes acquisitions made during the year. The figures for revenues and operating profit are on a constant exchange rate (CER) basis with amounts for 2021 restated at 2022 exchange rates.

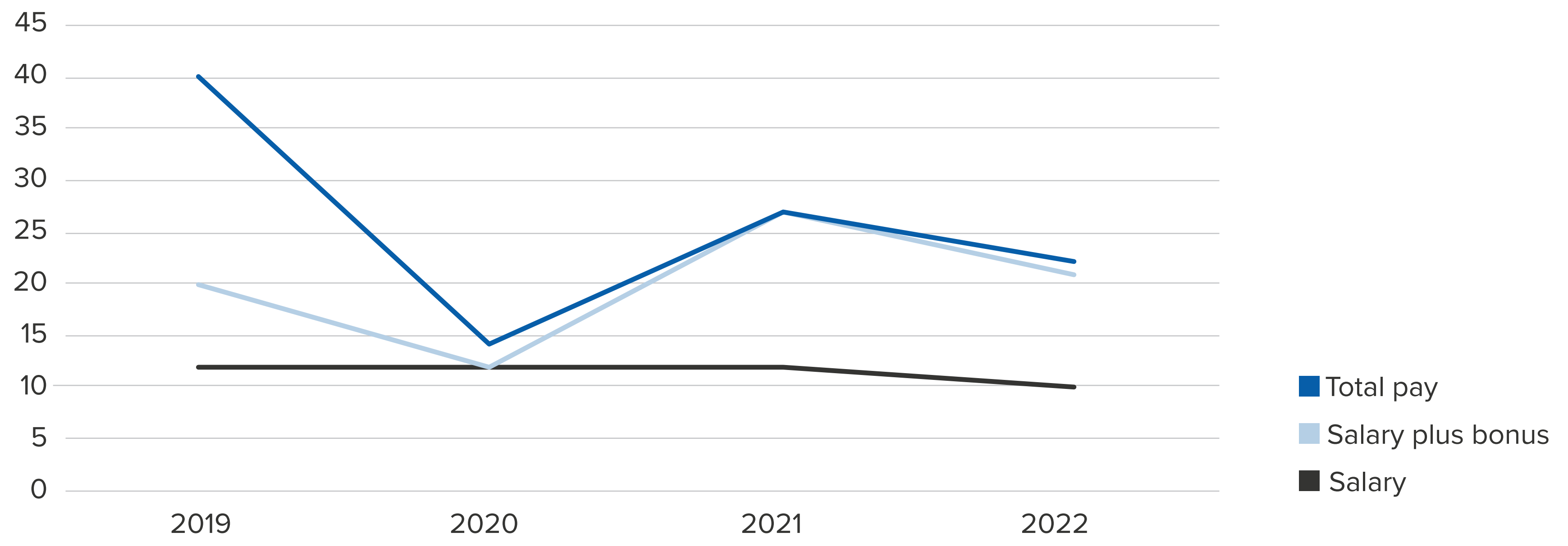
CEO pay ratio

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

		Salary			Salary plus bonus			Total pay		
Financial Year	Calculation methodology	P25	P50	P75	P25	P50	P75	P25	P50	P75
2019	A	21	12	8	37	20	11	58	36	19
2020	A	20	12	7	20	12	7	20	14	7
2021	A	16	12	8	37	27	13	41	27	12
2022	A[1]	15	10	6	34	21	10	42	23	11

1 During the year, Coats acquired Texon which includes approximately 100 UK based employees. Giving the timing of this acquisition and associated complications in relation to incorporating these employees into the calculation of the CEO Pay Ratio, these employees have been excluded for 2022. Coats intends to incorporate these employees going forwards. Although employees from Texon have been excluded from the calculations, based on high-level analysis, Coats is comfortable that the inclusion of these employees would not have a material impact on the overall CEO pay ratio, and that the ratio set out above is reflective of the overall Group.

Year-on-year change in ratio of CEO pay to median employee pay



The ratio of salary, salary plus bonus and Total Pay have marginally decreased during 2022, largely due to the reduction in the number of UK based head office employees. 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 employed by the UK parent company 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 2022 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	£646,262	£42,000	£66,303	£110,250
Base and Bonus	£1,480,300	£42,630	£69,552	£153,082
Total Remuneration	£1,835,200	£43,875	£81,212	£167,562

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

Prior to the publication of the proposed Remuneration Policy the Company consulted with major shareholders (all those with more than a 2% shareholding) and major governance advisors to explain the rationale behind the limited number of proposed changes to the Remuneration Policy that will be subject to an approval vote at the 2023 AGM. In addition, the Company explained the rationale for changes that were proposed, within the framework of the existing policy, for implementation in 2023. The Company did respond to questions raised by shareholders notably to assure shareholders that the incentive targets relating to the increased bonus opportunity (within the limits of the existing policy) would remain challenging. In addition shareholders enquired about the reason for the change in the Long Term Incentive cash measure and whether there were alternative measures that had been considered; in this respect the company confirmed that the wording of the Remuneration Policy was intended to allow sufficient flexibility to consider alternative cash related measures (such as Return on Capital Employed) during the lifetime of the policy and with further consultation with all shareholders.

Directors' remuneration report cont.

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 effect from 1 January 2023. The pension benefit for Jackie Callaway was implemented at 12% of salary upon her appointment in 2020 and for Rajiv Sharma his pension benefit reduced to 12% of salary from 31 December 2022. The 12% benefit level is the typical Company pension contribution rate to UK employees for 2023.

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 2022. 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 to 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 Non-Executive for Workforce Engagement and is also a member of the Remuneration Committee. During 2022 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 alignment of executive remuneration with the wider workforce, directly or through line managers. Further details of the Board's engagement with the workforce is set out on page 32. In addition, during 2022 the Board conducted a series of in depth review meetings 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.

Statement of implementation of Remuneration Policy for 2023

Base salaries for Executive Directors and fees for the Non-Executive Directors will be reviewed on 1 July 2023.

Rajiv Sharma will, until the review date, continue to receive a base salary of £662,000, a car allowance of £20,000 and a pension contribution (aligned to the UK workforce) of 12%.

Jackie Callaway will continue to receive a base salary of £411,000, a car allowance of £15,000 and a pension benefit of 12%. Both Directors also receive private medical insurance, life and income replacement insurance.

The above Executive Director salaries have been in operation since 1 July 2022 when they were increased by 5% in line with the UK workforce budgeted increase. The Committee is aware of institutional investor guidance in relation to 2023 salary increases in light of the current high inflation rates in the UK and will consider this at the same time as the need to recognise the performance, experience and calibre of the Executive Directors when reviewing salaries at our standard UK review data of 1 July 2023.

In line with Remuneration Policy, it is expected that 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 125% and the LTIP award is expected to be at 150% of salary. The compulsory three-year deferral into shares of the 2023 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.

Annual bonus

Measure	Weighting
Sales	10%
Earnings Before Interest and Taxation	35%
Free Cash Flow	35%
Individual objectives	20%

Long Term Incentive

Measure	Weighting
Earnings Per Share CAGR	30%
Three year Average Cash Conversion	20%
Total Shareholder Return compared to the FTSE250	30%
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 2023 will be subject to targets that will vest at a level no more than 25% (for each measure) for threshold performance and at 100% (for each measure) for performance at maximum. There will be straight-line between threshold, maximum and any intervening points.

Further details regarding the targets will be published when the awards for 2023 are granted.

Directors' remuneration report cont.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Committee were: Echo Lu (Chair), Fran Philip, Nicholas Bull and Stephen Murray (from 1 September 2022).

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), Farnaz Ranjbar (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.

During the year, the Committee undertook a competitive tender process in respect of the adviser to the Committee. Following this process Korn Ferry replaced Mercer-Kepler as the Committee's advisor from 30 September 2022.

Mercer-Kepler received fees of £12,650 for time spent and materials used in providing advice to the Company during the period to 30 September 2022. Korn Ferry received fees of £42,900 for time spent and material used in providing advice to the Committee during the period to 31 December 2022.

Both Korn Ferry and Mercer-Kepler provided no other remuneration advice to the Company or any of the Directors, and are signatories of the Remuneration Consultants Group code of conduct. The Committee is satisfied that the advice provided the Committee was independent and was fair and objective.

Statement of voting at the General Meeting

At the AGM of the Company on 18 May 2022 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
1,195,752,385	96.69	40,978,595	3.31	1,236,730,980	36,058

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 2022 was evaluated following an externally facilitated review process as set out earlier in this Annual Report. The Committee considered the key points that were identified in the previous year's assessment. The 2022 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 2023 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

1 March 2023

Remuneration policy report

The Remuneration Policy was last approved by shareholders at the 2020 AGM. This updated policy will be subject to a binding shareholder vote at the 2023 AGM on 17 May 2023. If approved, the policy will apply for a period of up to three years from the date of approval.

As set out in the Remuneration Committee Chair's statement, following a review of the existing Policy, the Committee determined that the Policy should be rolled-forwards with no material changes.

Directors' Remuneration Policy

The Remuneration Committee has responsibility for determining remuneration for the Company's Directors including the Group Chair but excluding the Non-Executive Directors. The remuneration for Non-Executive Directors, excluding the Group Chair, is determined by the Board albeit the Non-Executive Directors are not present when their fees are discussed. The Committees take into account the need to recruit and retain Directors who have the suitable skills and experience to perform in the interests of the Company and its shareholders, while paying no more than is necessary.

The table below sets out how the proposed Policy specifically addresses the provisions of the UK Corporate Governance Code.

Alignment of the Remuneration Policy to the provisions of the 2018 Corporate Governance Code

Clarity	Simplicity	Risk
The approach to all elements of remuneration for Executive Directors is set out clearly within the Policy.	The Policy structure is simple and aligns with FTSE market practice. Performance measures which are well understood by our stakeholders have been chosen with targets and achievement of these targets clearly disclosed either prospectively or retrospectively.	All elements of variable remuneration have been designed to discourage excessive risk taking and all contain appropriate maximum limits. Executive Directors are required to develop and maintain, including post-employment, material shareholdings in line with the shareholding requirements. This provides significant alignment to the long-term experience of shareholders.
Predictability	**Proportionality**	**Alignment to culture**
Maximum opportunity levels for each component of variable remuneration are defined within the Policy. The scenario chart later in this Policy sets out an illustration of how the Policy may operate in practice, including maximum and minimum potential values.	Variable remuneration opportunity levels have been set at an appropriate level, proportionate to the size of the business, and mindful of the levels of fixed remuneration. Performance measures are linked to the Company's strategy and aligned with long-term creation of value for shareholders. The Committee retains its discretion to adjust formulaic variable remuneration outcomes where these do not align to the financial or non-financial performance of the business.	Variable remuneration is based on the achievement of financial and non-financial measures which link to the overall business strategy.

There are no material changes to the previous Remuneration Policy being made. This is because the Committee reviewed the current Policy's effectiveness in aligning performance and reward as well as considered how it compared with market and institutional investor best practice. The conclusion of this process was that the policy has achieved a fair relationship between performance and reward and is aligned with best practice. As a result, the Committee determined no material changes should be made. The changes that are being made are to better align the Policy wording with the intended application of the policy. The changes to the previous Policy wording provide for:

- Flexibility in relation to the timing of the annual salary review date. This is currently set as 1 July each year for Executive Directors, with the refined Policy wording enabling the salary review date for Executive Directors to be aligned with the appropriate workforce if there was a change of review date. The Company does not currently intend to change the existing review date
- Aligning the pension Policy wording with pension practice from 1 January 2023. This is for Executive Director pension to be set at 12% and so aligned with the typical rate of Company pension provision to UK based employees
- Defining the portion of annual bonus that is normally deferred within policy (i.e. 50% of any bonus earned where the maximum bonus opportunity is 150% of salary and 40% of any bonus earned where the maximum bonus opportunity is below 150% of salary)

Remuneration policy report cont.

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

Executive Directors' Remuneration Policy table

FIXED REMUNERATION

Purpose and link to strategy	Operation and opportunity
Salary	
To attract and retain the key talent that the Company needs to achieve its objectives.	Salaries for new Executive Directors will be set by the Board taking into account such factors as it determines to be necessary, as discussed above. Following recruitment, salaries will normally be reviewed annually with effect from 1 July (or such other date so as to align with the appropriate workforce review date). Salary reviews take account of factors including the market competitive level of pay in other companies, average salary increases applied elsewhere across the Group, the performance of the Company, the relative skills, performance and talent of the individual and any increase in the scope and/or responsibility of the individual's role. There is no set maximum salary but the Committee's approach will consider the median level of salary of similar positions in the FTSE 250 (excluding financial services), as well as companies in similar sectors and of a similar international scope and size to Coats, for UK based roles to reflect the global scope and dimensions of the Group's operations and the sector in which it operates. External benchmark data is considered only as a reference point and the median figure will not be regarded as a target level of remuneration.
Pension	
To provide a market competitive level of retirement provision.	From 1 January 2023 Executive Directors will be entitled to participate in a defined contribution scheme, on a non-contributory basis, with an employer contribution of up to the typical UK workforce (or other relevant local workforce where appropriate) rate which is currently 12% of salary, or will be provided with a cash alternative in lieu of any pension benefits of up to an equivalent value.
Benefits	
To provide a market competitive level of benefits.	Benefit provision to Executive Directors will be determined by the Committee taking into account such factors as it determines to be necessary, with the aim of creating a competitive overall package. There are no set maximum levels. Benefits may include the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for- car-allowance. In addition, the Company may provide assistance in connection with the relocation of an Executive Director and, in the event of an international transfer, may provide tax equalisation arrangements. Executive Directors may also participate in any all-employee incentive plan operated by the Company from time to time, up to the same limit for participation as applies for other employees.

VARIABLE REMUNERATION

Purpose and link to strategy	Operation and opportunity	Performance
Annual bonus, Cash bonus and deferral into shares under the rules of the Deferred Bonus Plan		
Annual bonus incentivises key individuals to achieve the objectives of the annual business plan. The deferred element ensures that the final value of the annual incentive is linked to the longer-term value of the Group.	Annual bonuses will be determined by reference to performance, measured over one financial year. The maximum annual bonus that may be awarded to any executive director will be 150% of salary. Any bonuses awarded will be subject to a mandatory deferral which is normally 50% of any bonus earned where the maximum bonus opportunity is 150% of salary and 40% of any bonus earned where the maximum bonus opportunity is below 150% of salary. Deferred bonuses will be transferred into shares, to be held for a three year retention period, under the terms of the Deferred Bonus Plan. Deferral may operate so that shares will be held beneficially by the Executive Director during this period, in which case dividends will be payable on shares during such period. The deferral may alternatively be achieved by the grant of a share award or nil cost option in lieu of the deferred portion of the bonus, in which case an additional payment in cash or shares may be made to reflect dividends that may have been earned during the period from grant to vesting. The annual bonus including cash paid or deferred element of the bonus may be subject to malus or clawback. Details of malus and clawback terms are set out below.	The performance measures, weightings and targets for the annual bonus will be set by the Committee on an annual basis. Performance measures will normally include tests of both business and individual performance. The weighting for each objective will be determined annually by the Committee to reflect the strategic importance of each objective for the year ahead. The Target level of performance will result in a payment of 50% of the maximum award. The Committee will determine the Target level of remuneration on a basis that it feels is stretching and challenging. Below Target, payment will increase between nil (below Threshold performance) and Target pay-out, on a straight- line basis. Above Target, payment will increase on a straight-line basis up to 100% for Maximum performance. The Committee will have the discretion to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. All annual bonus payments and awards are made at the discretion of the Committee and the terms of the awards may be amended by the Committee at any time provided that they remain within the terms of this policy.

Remuneration policy report cont.

VARIABLE REMUNERATION cont.

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

Shareholding requirements

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

Malus & clawback

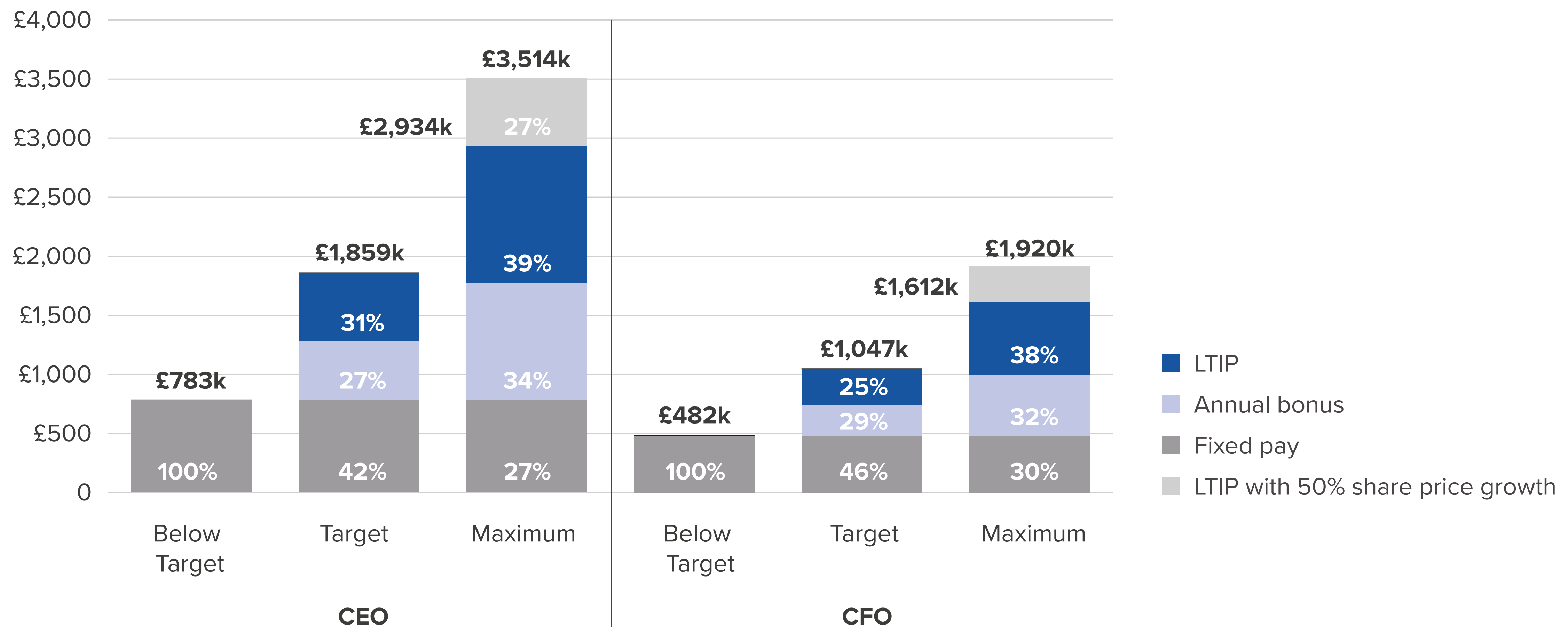
The Committee may, at any time within three years of a cash bonus payment, LTIP or deferred bonus award vesting, determine that malus and / or clawback shall apply if the Committee determines that:

- there was a material misstatement of the financial statements of the Company upon which the performance targets were assessed, or an erroneous calculation was made in assessing the extent to which performance targets were met;
- the award holder has contributed to serious reputational damage to the Company or one of its business units;
- the award holder's conduct has amounted to serious misconduct, gross negligence, fraud, dishonesty, a breach of the Code of Business Conduct or material wrongdoing; or
- where corporate failure or failure in risk management has occurred.

Performance measure selection and target-setting

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

Illustrations of the application of remuneration policy (figures in £000)



Remuneration policy report cont.

The above charts give an illustrative value of the remuneration package for each of the executive Directors in the upcoming year.

- Minimum is the base salary and pension contributions as of 1 January 2023 plus the value of benefits as disclosed in the FY 2022 single figure table
- On target is the aforementioned minimum plus an assumed 50% pay-out of the annual bonus opportunity and 50% vesting of LTIP awards to be made in FY 2023
- Maximum is the aforementioned minimum with an assumed 100% pay-out of the annual bonus opportunity and full vesting of LTIP awards to be made in FY 2023
- Maximum + share price assumption shows maximum plus a 50% share price appreciation on the shares subject to vested LTIP awards to be made in FY 2023

Legacy matters in respect of future Executive Directors

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

Recruitment Policy

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

External appointment

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

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

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

Remuneration policy report cont.

Internal promotion

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

Service contracts for Executive Directors

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

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

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

Service contracts offered to non-UK based, external appointments will generally be in line with the provisions set out above, subject to any local law requirements. All Executive Director letters of appointment are available for inspection at the Company's registered office during normal hours of business, and will also be available at the Company's AGM.

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

Policy on payment for loss of office of Executive Directors

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

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

Notice periods, salary and contractual rights

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

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

Discretions

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

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

Other

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

Remuneration policy report cont.

Corporate actions

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

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

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

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

Non-Executive Directors

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

Remuneration policy report cont.

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

Non-Executive Directors' Remuneration Policy table

Element	Purpose and link to strategy	Operation
Fees	To attract and retain a high-calibre Chair and Non-Executive Directors by offering market competitive fee levels.	The Chair is paid an all-inclusive fee for all Board responsibilities. The other Non-Executive Directors receive a basic Board fee, with supplementary fees payable for additional Board responsibilities and travel (if appropriate). The fee levels are reviewed on a periodic basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Additional payments may be made above the basic Board fee if duties significantly exceed expectations.
Supplementary fees		Supplementary fees may be payable to the Senior Independent Director, Chair of the Audit and Risk Committee, and Chair of the Remuneration Committee and the Director responsible for employee engagement.
Travel fees	The Board benefits from the diverse global business experience of its Non-Executive Directors, some of whom do not reside in the UK. However, the increasingly global nature of our business means that our Non-Executive Directors are required to travel, with recent meetings held in Brazil, China, Mexico, Sri Lanka, the USA and Vietnam. The Board wishes to recognise the additional time commitment required for Non- Executive Directors (excluding Chair) in travelling to Board meetings.	An additional fee may be payable to any Non-Executive Director (excluding the Chair) who is required to travel for more than a specified length of time to attend a Board meeting. The maximum total fees for travel will be subject to an annual cap. For 2023, a travel fee will be payable for any journey longer than 5 hours of one-way flight time and the maximum fee will be capped at the equivalent of 5 trips. The length of journey and maximum cap will be reviewed annually to ensure their continued relevance and appropriateness.

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

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

Under their respective Non-Executive Director appointment letters, all of the Non-Executive Directors are entitled to receive an annual fee. None of the appointment letters contains a set term of office. None of the appointment letters contains a notice period. There are no provisions in the Non-Executive Directors' letters of appointment that would give rise to any compensation payments for loss of office.

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

Development of this policy

Statement of consideration of employment conditions elsewhere in the Company

Prior to setting the Remuneration Policy the Committee the Committee does consider the pay structures elsewhere in the Group. The approach to benchmarking identifies similar comparator companies in each local market that the Company wishes to recruit from; the same underlying principles of fairness, transparency and market competitiveness are applied to executive appointments and to local remuneration arrangements. Benefit provision follows the same principles of being security minded and in line with local market practice with an objective of promoting mental and physical well-being. There is a greater level of "at risk" remuneration for more senior roles reflecting the extent to which pay is conditional on company performance. The Committee annually reviews the details, market competitiveness and quantum of the remuneration policies in each of the Company's major markets and compares that, where applicable, to senior leadership roles based in that location. This consideration is also extended to the implementation of the Company's Living Wage policy, which is reviewed annually to ensure it is relevant to all our employees and corrective actions are identified to increase compensation where this is required. Committee takes into account the impact on and comparison with pay arrangements throughout the Company. The Committee does not directly consult with employees when determining remuneration policy.

The structure of remuneration for Coats' senior management team is consistent with that for the Executive Directors. Senior executives participate in annual bonus and long-term incentive arrangements based on performance measures that are aligned to the measures applicable to Executive Directors.

Statement of consideration of shareholder views

The Committee remains committed to shareholder dialogue and takes an active interest in voting outcomes. The Committee sought the views of our major shareholders before submitting this Policy for shareholder approval at the 2023 AGM.

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

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

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

Report on the audit of the financial statements

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 2022 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 notes to the financial statements 1 to 37;
- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the Notes to the Company Financial Statements 1 to 6

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and 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. The non-audit services provided to the group are set out in note 5 to the financial statements and further detail on the nature of services provided is set out in the Audit and Risk Committee report on page 71. 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: – Uncertain tax provisions; – Material assumptions underlying UK retirement benefits obligations; and – Acquisition accounting: Valuation of acquired intangibles .
Materiality	The materiality that we used for the group financial statements was $9.9m which was determined on the basis of 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 broad geographical spread of the group, the audit is subject to scoping decisions on overseas components. Our full-scope audit and specified audit procedures performed covered 76% of the group's net assets, 81% of the group's adjusted profit before tax within the group's trading components, and 77% of the group's revenue.
Significant changes in our approach	Due to the developments referred to on page 151, we no longer consider there to be a key audit matter relating to Lower Passaic River provisioning. In light of the Group's acquisition of Texon International Group ("Texon") and Rhenoflex GmbH ("Rhenoflex"), we have identified a key audit matter over the valuation acquisition of intangibles relating to these businesses.

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

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;
- Considering emerging issues such as current macroeconomic conditions;
- 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 forecast;
- 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.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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 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, particularly in respect of intercompany cross-border transactions. The group's uncertain tax provisions at 31 December 2022 amount to $26.3 million (2021: $20.2 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 by management and their external advisors to determine the amount to be provided against known exposures. The valuation of central provisions relating to ongoing Advanced Pricing Agreement ("APA") negotiations between the UK and Indonesian jurisdiction tax authorities is considered to be the most significant uncertain tax exposure in the group, however management do not consider this to be a key source of estimation uncertainty. 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 73.
How the scope of our audit responded to the key audit matter	In responding to the key audit matter identified, we performed the following audit procedures: Obtained an understanding of the relevant controls over the central tax provision and evaluated whether these had been implemented as designed. 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. Worked with our transfer pricing specialist to challenge management and their external advisors on the basis for the provision recognised in respect of the ongoing Indonesian Advanced Pricing Agreement. Assessed the completeness and accuracy of management's disclosures within the financial statements in accordance with IAS 12 *Income Taxes* and whether any critical accounting judgements or key sources of estimation uncertainty exist that require further disclosure under IAS 1.

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

Key observations	Following our analysis and considerations of the Uncertain Tax Provisions, we are satisfied that the provisions raised in respect of the potential taxation exposures lie within an acceptable range, and are therefore appropriate. We concluded that the related disclosures in the financial statements are appropriate.

5.2 Material assumptions underlying retirement benefit obligations

Key audit matter description	The retirement benefit obligations recognised in the statement of financial position in respect of defined employee benefits are the present values of the defined benefit obligations at the year-end less the fair value of any associated assets. The gross actuarial value of scheme liabilities of Coats Group plc at 31 December 2022 was $1,912 million (2021: $3,197 million), determined by management's expert. 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 $105.4 million (2021: $21.1 million net surplus). The Coats UK Pension Scheme is the most significant scheme, the gross liabilities of which amount to $1,786.2 million (2021: $3,034.9 million). During the period, the trustee purchased a £350 million bulk annuity insurance policy with Aviva to be held as an investment of the scheme. The key assumptions involved in the determination of the present values of the UK defined benefit obligation include discount rates, mortality, and inflation rates. 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, in line with IFRIC 14. 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 69.
How the scope of our audit responded to the key audit matter	In responding to the key audit matter identified, we performed the following audit procedures: Obtained an understanding of the relevant controls over the UK pension assumptions and evaluated whether this had been implemented as designed. 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. 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. 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. With the assistance of our pension specialists we assessed the Aviva buy-in transaction, and the accounting treatment by assessing the key terms of the agreement. Independently calculated the value placed on the annuity policies based on member data as at 31 December 2022. Assessed the completeness and accuracy of management's disclosures within the financial statements in accordance with IAS 19 Employee Benefits and whether any critical accounting judgements or key sources of estimation uncertainty exist that require further disclosure under IAS 1.
Key observations	The key assumptions upon which the underlying retirement benefit obligation is based 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. We concluded that the related disclosures in the financial statements are appropriate.

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

5.3 Acquisition accounting: Valuation of acquired intangibles	
Key audit matter description	During the financial year, the Group acquired Texon and Rhenoflex for $211.0 million and $81.5 million respectively. Supported by external valuation specialists, management has recognised acquisition intangibles of $240.2 million and goodwill of $98.5 million as a result of these acquisitions. The valuation of these assets involved management determining a number of significant assumptions, being: the discount rate, attrition rate for customer relationships and royalty rates for the trade name and technology. The matter is discussed as a significant financial and reporting issue in the Audit and Risk Committee report on page 73.
How the scope of our audit responded to the key audit matter	In responding to the key audit matter identified, we performed the following audit procedures: Obtained an understanding of the relevant controls over the valuation of acquired intangible assets and whether these had been implemented as designed. Worked with our valuation specialists to challenge the valuation of acquired intangibles by obtaining underlying data used in the calculation and benchmarking it against market data and comparable organisations. Evaluated associated underlying assumptions and forecasts by agreeing the underlying data to acquisition due diligence reports. Assessed the mechanical and logical accuracy of the models underpinning the valuation. Assessed the competence capability and objectivity of management's external valuation specialist. Assessed the opening balance sheet of the acquired businesses, including any fair value adjustments determined by management; and Assessed the completeness and accuracy of management's disclosures within the financial statements in accordance with IFRS 3 *Business Combinations* and whether any critical accounting judgements or key sources of estimation uncertainty exist that require further disclosure under IAS 1.
Key observations	Following our audit procedures performed, we have concluded that the key assumptions sit within an acceptable range. We are therefore satisfied that the valuation of acquired intangibles relating to Texon and Rhenoflex, and related disclosures, are appropriate.

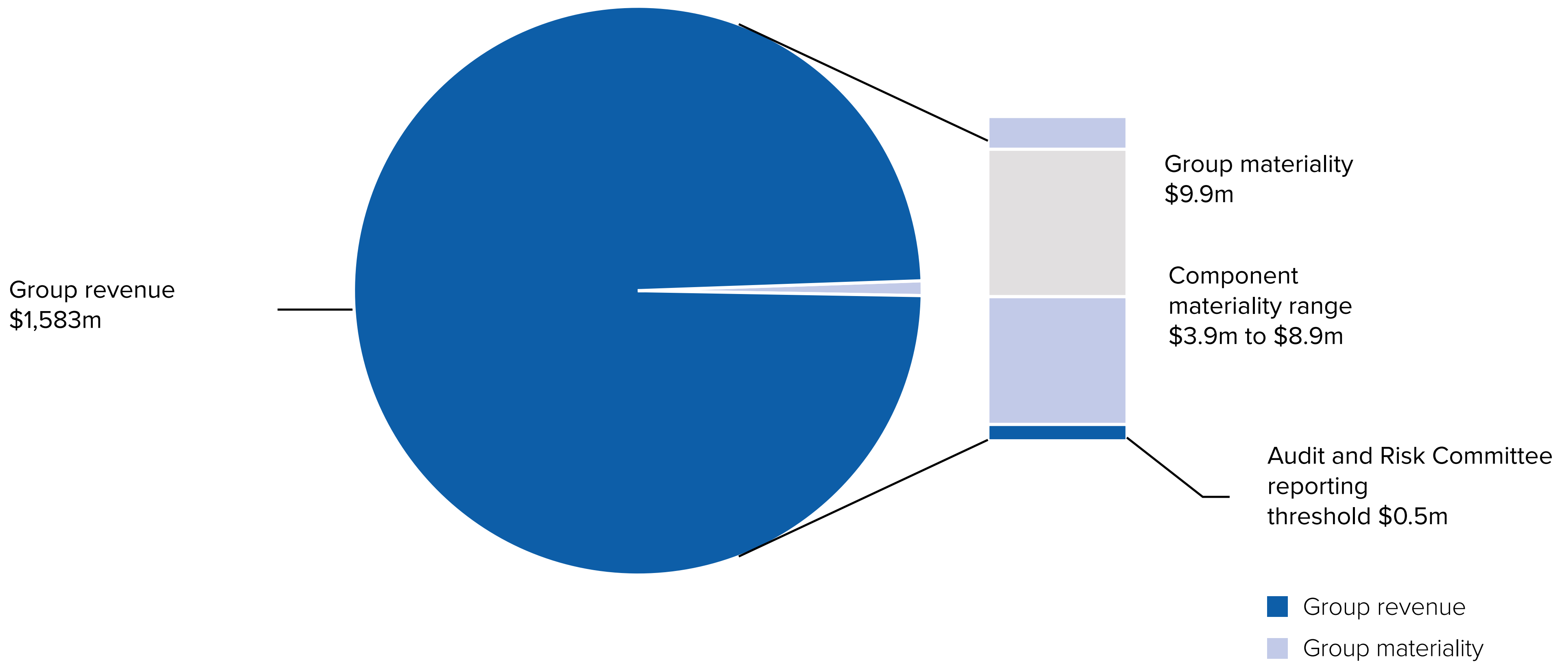
6 Our application of materiality

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	$9.9 million (2021: $9.2 million)	$8.9 million (2021: $8.2 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 group 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.



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

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% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered our history of auditing the entity, including the lack of significant deficiencies and errors identified in previous years. For FY22 purposes, Deloitte has continued to apply a performance materiality threshold of 70% (FY21: 70%) of group materiality. given the quality of the control environment, the relatively low level of misstatements identified in the current and prior years, as well as the fact that management is generally willing to correct these misstatements.	

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 (2021: $0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1 Identification and scoping of components

Coats Group plc was subject to a full statutory audit by the group auditor. Due to the geographically widespread nature of the group, the audit was subject to scoping decisions on overseas components. Following the Group's acquisition of Texon and Rhenoflex, we have refreshed and updated our understanding of the group and its environment, including assessing the risks of material misstatement at the group level, in order to ensure that the components selected for audit provide an appropriate basis on which to undertake audit work to address the identified risks of material misstatement.

We focused our Group audit scope on 14 (2021: 11) overseas components spread across four continents, which were subject to full audits. The increase in component full scope audits is as a result of the Texon and Rhenoflex acquisitions in the year. Additionally, 7 (2021: 7) components were subject to specified audit procedures.

The 14 overseas components and UK components subject to full audit scope account for 65% (2021: 69%) of the group's net assets, 81% (2021: 80%) of the group's adjusted profit before tax within the group's trading components, and 67% (2021: 71%) of the group's revenue. Including specified audit procedures performed, we have obtained coverage over 76% (2021: 85%) of the group's net assets and 77% (2021: 78%) of the group's revenue.

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

Full audit scope 67%
Specified audit procedures 10%
Review at group level 23%

Adjusted profit before tax

Full audit scope 81%
Specified audit procedures 10%
Review at group level 9%

Net assets

Full audit scope 65%
Specified audit procedures 11%
Review at group level 24%

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, 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 and scoping, we did not seek to place reliance upon the operating effectiveness of the general IT and entity level controls within these components.

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

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 36. 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(v), 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(v).

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. With the involvement of climate change and sustainability specialists, we evaluated management's risk assessment process in respect of the potential impact of climate change in judgements and estimates taken in the financial statements, and evaluated management's Task Force on Climate-Related Disclosures in line with the latest guidance. We also read the climate-related disclosures in the Strategic Report to consider whether it is materially consistent with the financial statements and our knowledge obtained in the audit.

7.4 Working with other auditors

As part of our year end audit work, the group engagement team visited the Mexico and US component audit and management teams during the year-end audit process.

For all overseas components, including Coats Bangladesh and all subsidiaries within the Texon Group audited by non-Deloitte firms, we held planning calls, assessed their independence, 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

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10 Auditor's responsibilities for the audit of the financial statements

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

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

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

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 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;
- 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 2022 rebate accrual;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with tax and licensing authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

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 77;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 77;
- the directors' statement on fair, balanced and understandable set out on page 80;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 49;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 42; and
- the section describing the work of the audit committee set out on page 67.

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.

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

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 20 years, covering the years ending 31 December 2003 to 31 December 2022. The year ended 31 December 2022 will be the final year under audit by Deloitte.

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
1 March 2023

Consolidated income statement

Year ended 31 December	Notes	2022 Before exceptional and acquisition related items US$m	2022 Exceptional and acquisition related items (see note 4) US$m	2022 Total US$m	2021* Before exceptional and acquisition related items US$m	2021* Exceptional and acquisition related items (see note 4) US$m	2021* Total US$m
Continuing operations:							
Revenue	2,3	**1,583.8**	**–**	**1,583.8**	1,446.7	–	1,446.7
Cost of sales		**(1,087.1)**	**(9.9)**	**(1,097.0)**	(979.3)	–	(979.3)
Gross profit		**496.7**	**(9.9)**	**486.8**	467.4	–	467.4
Distribution costs		**(126.1)**	**(3.8)**	**(129.9)**	(125.1)	–	(125.1)
Administrative expenses		**(135.7)**	**(41.4)**	**(177.1)**	(144.6)	(19.5)	(164.1)
Other operating income		**–**	**1.2**	**1.2**	–	–	–
Operating profit	2,4,5	**234.9**	**(53.9)**	**181.0**	197.7	(19.5)	178.2
Share of profits of joint ventures	16	**1.1**	**–**	**1.1**	1.2	–	1.2
Finance income	6	**2.6**	**–**	**2.6**	0.4	–	0.4
Finance costs	7	**(32.3)**	**(1.1)**	**(33.4)**	(21.8)	–	(21.8)
Profit before taxation	5	**206.3**	**(55.0)**	**151.3**	177.5	(19.5)	158.0
Taxation	9	**(60.1)**	**3.7**	**(56.4)**	(53.3)	0.2	(53.1)
Profit from continuing operations		**146.2**	**(51.3)**	**94.9**	124.2	(19.3)	104.9
(Loss)/profit from discontinued operations		**(3.7)**	**(83.9)**	**(87.6)**	(5.2)	8.9	3.7
Profit for the year		**142.5**	**(135.2)**	**7.3**	119.0	(10.4)	108.6
Attributable to:							
Equity shareholders of the company		**120.2**	**(134.9)**	**(14.7)**	99.3	(10.4)	88.9
Non-controlling interests		**22.3**	**(0.3)**	**22.0**	19.7	–	19.7
		142.5	**(135.2)**	**7.3**	119.0	(10.4)	108.6
Earnings/(loss) per share (cents):	11						
Continuing operations:							
Basic				**4.80**			5.84
Diluted				**4.77**			5.82
Continuing and discontinued operations:							
Basic				**(0.98)**			6.10
Diluted				**(0.97)**			6.07
Adjusted earnings per share	37(d)	**8.17**			7.17		

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Notes on pages 118 to 169 form part of these financial statements.

Consolidated statement of comprehensive income

Year ended 31 December	2022 US$m	2021 US$m
Profit for the year	**7.3**	108.6
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains on retirement benefit schemes (note 10)	**59.8**	212.8
Tax relating to items that will not be reclassified	**(1.4)**	(1.0)
	58.4	211.8
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(31.9)**	(17.0)
Items reclassified to profit or loss:		
Exchange differences transferred to income statement on sale of business (note 32)	**15.0**	–
Other comprehensive income and expense for the year	**41.5**	194.8
Net comprehensive income and expense for the year	**48.8**	303.4
Attributable to:		
Equity shareholders of the company	**27.5**	284.2
Non-controlling interests	**21.3**	19.2
	48.8	303.4

Notes on pages 118 to 169 form part of these financial statements.

Consolidated statement of financial position

31 December	Notes	2022 US$m	2021 US$m
Non-current assets:			
Goodwill	13	**124.7**	26.2
Intangible assets	13	**488.7**	256.7
Property, plant and equipment	14	**256.3**	244.5
Right-of-use assets	15	**96.5**	91.6
Investments in joint ventures	16	**13.1**	12.0
Other equity investments	16	**5.9**	6.0
Deferred tax assets	17	**24.4**	20.7
Pension surpluses	10	**222.7**	159.7
Trade and other receivables	19	**20.2**	28.7
		1,252.5	846.1
Current assets:			
Inventories	18	**211.4**	250.1
Trade and other receivables	19	**286.3**	302.7
Pension surpluses	10	**2.0**	5.2
Cash and cash equivalents	30(g)	**172.4**	107.2
		672.1	665.2
Total assets		**1,924.6**	1,511.3
Current liabilities:			
Trade and other payables	21	**(278.4)**	(346.8)
Current income tax liabilities		**(20.2)**	(16.5)
Bank overdrafts and other borrowings	23	**(16.7)**	(19.2)
Lease liabilities	15	**(19.0)**	(17.8)
Retirement benefit obligations:			
– Funded schemes	10	**(27.6)**	(41.9)
– Unfunded schemes	10	**(5.0)**	(6.1)
Provisions	25	**(18.2)**	(8.1)
		(385.1)	(456.4)
Net current assets		**287.0**	208.8

31 December	Notes	2022 US$m	2021 US$m
Non-current liabilities:			
Trade and other payables	21	**(26.3)**	(24.2)
Deferred tax liabilities	24	**(65.3)**	(6.8)
Borrowings	23	**(550.1)**	(235.1)
Lease liabilities	15	**(86.4)**	(81.2)
Retirement benefit obligations:			
– Funded schemes	10	**(3.3)**	(5.6)
– Unfunded schemes	10	**(83.4)**	(90.2)
Provisions	25	**(25.4)**	(27.7)
		(840.2)	(470.8)
Total liabilities		**(1,225.3)**	(927.2)
Net assets		**699.3**	584.1
Equity:			
Share capital	26	**99.0**	90.1
Share premium account	27	**111.4**	10.5
Own shares	26, 27	**(0.1)**	(0.5)
Translation reserve	27	**(121.9)**	(105.7)
Capital reduction reserve	27	**59.8**	59.8
Other reserves	27	**246.3**	246.3
Retained profit	27	**270.7**	252.5
Equity shareholders' funds		**665.2**	553.0
Non-controlling interests	27	**34.1**	31.1
Total equity		**699.3**	584.1

Rajiv Sharma
Group Chief Executive

Jackie Callaway
Chief Financial Officer

Approved by the Board 1 March 2023

Company Registration No.103548

Notes on pages 118 to 169 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 2021	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
(Loss)/profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(14.7)**	**(14.7)**	**22.0**	**7.3**
Other comprehensive income and expense for the year	**–**	**–**	**–**	**(16.2)**	**–**	**–**	**58.4**	**42.2**	**(0.7)**	**41.5**
Application of IAS 29 (note 1)	**–**	**–**	**–**	**–**	**–**	**–**	**5.0**	**5.0**	**–**	**5.0**
Dividends (see notes 12 and 27)	**–**	**–**	**–**	**–**	**–**	**–**	**(32.9)**	**(32.9)**	**(18.3)**	**(51.2)**
Issue of ordinary shares	**8.9**	**100.9**	**–**	**–**	**–**	**–**	**–**	**109.8**	**–**	**109.8**
Purchase of own shares by Employee Benefit Trust	**–**	**–**	**(2.1)**	**–**	**–**	**–**	**–**	**(2.1)**	**–**	**(2.1)**
Movement in own shares	**–**	**–**	**2.5**	**–**	**–**	**–**	**(2.5)**	**–**	**–**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**4.6**	**4.6**	**–**	**4.6**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Balance as at 31 December 2022	**99.0**	**111.4**	**(0.1)**	**(121.9)**	**59.8**	**246.3**	**270.7**	**665.2**	**34.1**	**699.3**

Notes on pages 118 to 169 form part of these financial statements.

Consolidated statement of cash flows

Year ended 31 December	Notes	2022 US$m	2021 US$m
Cash inflow from operating activities:			
Cash generated from operations	30(a)	**176.5**	189.0
Interest paid	30(b)	**(25.5)**	(12.5)
Taxation paid	30(c)	**(54.6)**	(47.9)
Net cash generated by operating activities		**96.4**	128.6
Cash outflow from investing activities:			
Investment income	30(d)	**0.5**	0.3
Net capital expenditure and financial investment	30(e)	**(31.6)**	(30.3)
Acquisition of businesses	30(f)	**(271.2)**	–
Disposals of business	30(f)	**(17.0)**	–
Net cash absorbed in investing activities		**(319.3)**	(30.0)
Cash inflow/(outflow) from financing activities:			
Issue of ordinary shares	26	**109.8**	–
Purchase of own shares by Employee Benefit Trust		**(2.1)**	–
Dividends paid to equity shareholders		**(33.0)**	(27.4)
Dividends paid to non-controlling interests		**(18.3)**	(16.5)
Payment of lease liabilities		**(18.1)**	(22.1)
Borrowings settled on completion of acquisitions	31	**(62.5)**	–
Drawdown of term loan acquisition facility	30(g)	**240.0**	–
Net increase in other borrowings		**79.2**	8.4
Net cash generated from/(absorbed in) financing activities		**295.0**	(57.6)

Year ended 31 December	Notes	2022 US$m	2021 US$m
Net increase in cash and cash equivalents		**72.1**	41.0
Net cash and cash equivalents at beginning of the year		**90.8**	52.1
Foreign exchange losses on cash and cash equivalents		**(5.2)**	(2.3)
Net cash and cash equivalents at end of the year	30(g)	**157.7**	90.8
Reconciliation of net cash flow to movements in net debt			
Net increase in cash and cash equivalents		**72.1**	41.0
Drawdown of term loan acquisition facility	30(g)	**(240.0)**	–
Net increase in other borrowings		**(79.2)**	(8.4)
Change in net debt resulting from cash flows (free cash flow)	37(e)	**(247.1)**	32.6
Net movement in lease liabilities during the period		**(13.0)**	(33.0)
Movement in fair value hedges		**5.2**	3.0
Other non-cash movements		**(1.0)**	(1.3)
Foreign exchange gains/(losses)		**2.2**	(0.8)
(Increase)/decrease in net debt		**(253.7)**	0.5
Net debt at the start of the year		**(246.1)**	(246.6)
Net debt at the end of the year	30(g)	**(499.8)**	(246.1)

Notes on pages 118 to 169 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:

In the course of preparing the financial statements, the below critical judgements and key sources of estimation uncertainty have had a significant effect on the amounts recognised in the financial statements for the years ended 31 December 2022. The critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2021, except for the critical accounting judgement relating to the sale of the Brazil and Argentina business in 2022 set out below.

Critical judgements in applying the Group's accounting policies

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 provide valuable additional information for users of the financial statements in understanding the Group's performance. 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 $180.7 million at 31 December 2022 (2021: $108.0 million). Judgement has been applied when interpreting the scheme rules to determine 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.

Discontinued operations

In management's judgement the Brazil and Argentina business which was sold in May 2022 represents a separate major geographical area and therefore its results for 2022 have been presented as a discontinued operation with 2021 comparative amounts represented to reclassify the results of the Brazil and Argentina business from continuing operations to discontinued operations

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.

a) Accounting convention and format

The Group's financial statements for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. 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 2021.

Notes to the financial statements cont.

1 Principal accounting policies cont.

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.

Discontinued operations

On 10 May 2022 the Group announced the agreement to sell its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The sale was completed on 26 May 2022, the date which control passed to the acquirer. The results of the Brazil and Argentina business are presented as a discontinued operation in the consolidated income statement for the year ended 31 December 2022. Amounts for year ended 31 December 2021 in the consolidated income statement have been represented to reclassify the results of the Brazil and Argentina business from continuing operations to discontinued operations. Note 32 provides further details of the sale.

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 2023 as well as the Group's Medium Term Plan for 2024;
- 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 2022 the Group's net debt excluding leases liabilities was $394.4 million (2021: $147.1 million). Following the completion of the new US Private Placement and repayment of the acquisition facility in February 2023, the Group's committed debt facilities total $835 million across its Banking and US Private Placement group, with a range of maturities from late 2024 through to 2030. As of 31 December 2022, based on the facilities in place at that date, the Group had around $250 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 cont.

1 Principal accounting policies cont.

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 2022, with leverage of 1.4x and interest cover of 19.0x. 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 2022.

d) Foreign currencies

Foreign currency translation

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

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

Group companies

Assets and liabilities of subsidiaries whose presentation currency is not USD are translated into the Group's presentation currency at the rates of exchange ruling at the period end and their income statements are translated at the average exchange rates for the year.

The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of such an entity, the deferred cumulative amount recognised in equity since 1 January 2004 relating to that particular operation is recycled through the consolidated income statement. Translation differences that arose before the date of transition to IFRS in respect of all such entities are not presented as a separate component of equity.

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

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

		2022	2021
Average	Sterling	**0.81**	0.73
	Euro	**0.95**	0.85
	Chinese Renminbi	**6.73**	6.45
	Indian Rupee	**78.59**	73.92
	Turkish Lira*	**16.57**	8.89
Period end	Sterling	**0.83**	0.74
	Euro	**0.93**	0.88
	Chinese Renminbi	**6.90**	6.35
	Indian Rupee	**82.72**	74.47
	Turkish Lira	**18.69**	13.32

Notes to the financial statements cont.

1 Principal accounting policies cont.

* Cumulative inflation rates over a three-year period exceeded 100% in Turkey in Q2 2022 and is considered as hyperinflationary and as a result IAS 29 "Financial Reporting in Hyperinflationary Economies" has been applied for the first time for the year ended 31 December 2022. In accordance with IAS 29, the financial statements of the Company's subsidiary in Turkey are translated into the Group's US Dollar presentational currency at the 31 December 2022 year end exchange rate. Monetary assets and liabilities are not restated. All non-monetary items recorded at historical rates are restated for the change in purchasing power caused by inflation from the date of initial recognition to the year end balance sheet date. The income statement of the Company's subsidiary in Turkey is adjusted for inflation during the reporting period. Comparative amounts in the Group's financial statements are not restated. The translation adjustment resulting from the initial application of IAS 29 of $5.0 million was recognised in equity and a net monetary gain of $1.9 million was recognised within finance income on non-monetary items held in Turkish Lira. The inflation rate used is the consumer price index published by the Turkish Statistical Institute, TurkStat. The movement in the price index for the year ended 31 December 2022 was 64%.

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.

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) Business combinations and Intangible assets

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the sum of the acquisition-date fair values of assets given, liabilities incurred or assumed in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement, as incurred, in operating costs.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Notes to the financial statements cont.

1 Principal accounting policies cont.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. 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 15 years

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

Other intangibles

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

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

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

Impairment of property, plant and equipment, 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.

Notes to the financial statements cont.

1 Principal accounting policies cont.

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.

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.

Notes to the financial statements cont.

1 Principal accounting policies cont.

(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.

(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 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.

l) Revenue

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

(i) Sales of goods

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

(ii) Sales of services

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

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

Advances received from customers are included within contract liabilities.

Notes to the financial statements cont.

1 Principal accounting policies cont.

(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.

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.

Notes to the financial statements cont.

1 Principal accounting policies cont.

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

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

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

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

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

p) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

r) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from an insurer, a receivable is recognised as an insurance reimbursement asset and included separately within other receivables if it is virtually certain that reimbursement from the insurer will be received and the amount of the receivable can be measured reliably.

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.

Notes to the financial statements cont.

1 Principal accounting policies cont.

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 35-38 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 2022 (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 (e.g. 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.

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:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018–2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to the Conceptual Framework (Amendments to IFRS 3).

The 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 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).

From the year beginning 1 January 2024:

- Non-current Liabilities with Covenants (Amendments to IAS 1);

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 throughout the year ended 31 December 2022 were grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles. Effective 1 January 2023 the Group's new organisational structure and reporting structure will consist of three divisions: Apparel, Footwear and Performance Materials. The Group will report its financial results on this new segmental basis from half year 2023 and, from 1 January 2023, this will be the basis on which financial information is reported internally to the chief operating decision maker (CODM) for the purpose of allocating resources between segments and assessing their performance.

Notes to the financial statements cont.

2 Segmental analysis cont.

As at December 2022, this internal reorganisation had not occurred with segment results grouped into two segments Apparel & Footwear and Performance Materials to which the CODM was provided financial information on which to assess performance and allocate resources.

a) Segment revenue and results

Year ended 31 December 2022	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Revenue	**1,163.4**	**420.4**	**1,583.8**
Segment profit	**200.8**	**34.1**	**234.9**
Exceptional and acquisition related items (note 4)			**(53.9)**
Operating profit			**181.0**
Share of profits of joint ventures			**1.1**
Finance income			**2.6**
Finance costs			**(33.4)**
Profit before taxation from continuing operations			**151.3**

Year ended 31 December 2021*	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Revenue	1,048.1	398.6	1,446.7
Segment profit	170.7	27.0	197.7
Exceptional and acquisition related items (note 4)			(19.5)
Operating profit			178.2
Share of profits of joint ventures			1.2
Finance income			0.4
Finance costs			(21.8)
Profit before taxation from continuing operations			158.0

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Cost of sales and other operating costs not directly attributable to a segment are allocated to segments on an aggregated 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, total liabilities and depreciation charges 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

	Revenue by origin		Revenue by destination		Non-current assets	
Year ended 31 December	2022 US$m	2021* US$m	2022 US$m	2021* US$m	2022 US$m	2021 US$m
Europe, Middle East & Africa (EMEA)						
UK	**23.1**	14.4	**13.0**	14.8	**256.8**	258.9
Rest of EMEA	**308.3**	268.8	**281.6**	250.9	**195.0**	70.3
Americas						
USA	**219.4**	205.4	**240.7**	218.4	**51.0**	63.3
Rest of Americas	**121.2**	108.4	**118.1**	116.2	**52.8**	46.6
Asia & Rest of World						
India	**184.4**	166.7	**184.3**	161.8	**39.7**	46.1
China and Hong Kong	**234.9**	217.5	**198.4**	194.1	**301.8**	77.1
Vietnam	**213.5**	192.0	**215.0**	178.7	**38.7**	34.9
Other	**279.0**	273.5	**332.7**	311.8	**63.7**	67.2
	1,583.8	1,446.7	**1,583.8**	1,446.7	**999.5**	664.4

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

3 Revenue

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

Year ended 31 December	2022 US$m	2021* US$m
Goods transferred at a point in time	**1,573.6**	1,435.6
Software solutions services transferred over time	**10.2**	11.1
	1,583.8	1,446.7
Other operating income	**1.2**	–
Finance income	**2.6**	0.4
	1,587.6	1,447.1

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

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

Notes to the financial statements cont.

3 Revenue cont.

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	2022 US$m	2021* US$m
Continuing operations:		
Asia	**911.8**	849.7
Americas	**340.6**	313.8
EMEA	**331.4**	283.2
	1,583.8	1,446.7
Continuing operations:		
Apparel & Footwear	**1,163.4**	1,048.1
Performance Materials	**420.4**	398.6
	1,583.8	1,446.7

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Revenue from Texon and Rhenoflex totalling $87.2 million for the period to 31 December 2022 from their respective acquisition dates (see note 31) is included in the amount above for the Apparel & Footwear segment of which $34.4 million is included in Asia, $1.2 million is included in Americas and $51.6 million is included in EMEA.

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 is presented before and after exceptional and acquisition related items. Adjusted results exclude exceptional and acquisition related items on a consistent basis with the previous reporting period to provide valuable additional information for users of the financial statements in understanding the Group's performance and reflects 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 37.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, 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 profit before taxation for the year ended 31 December 2022 were $55.0 million (2021: $19.5 million) comprising exceptional items for the year ended 31 December 2022 of $31.2 million (2021: $3.7 million) and acquisition related items for the year ended 31 December 2022 of $23.8 million (2021: $15.8 million). Taxation in respect of exceptional and acquisition related items is set out in note 9.

Exceptional items

Exceptional items charged/(credited) to operating profit during the year ended 31 December 2022 are set out below:

Year ended 31 December	2022 US$m	2021* US$m
Exceptional items:		
Strategic project costs:	**9.9**	–
- Cost of sales	**3.8**	–
- Distribution costs	**18.7**	3.7
- Administration costs	**32.4**	3.7
Profit from sale of property:		
Other operating income	**(1.2)**	–
Total exceptional items charged to operating profit from continuing operations	**31.2**	3.7

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Notes to the financial statements cont.

4 Exceptional and acquisition related items cont.

Strategic project costs – At the end of 2021 the Group commenced a strategic project to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. During the year a new facility was established in Mexico, manufacturing processes were transferred from the US and a legacy facility in the US was exited. In EMEA thread operations in Romania were consolidated in a purpose-built logistics facility and warehouses in Poland and Hungary were exited. Corporate and overhead activities in the UK and US were moved closer to the Group's operations and customers. As a result of these activities, exceptional restructuring costs totalling $32.4 million were incurred during the year ended 31 December 2022 which included severance costs of $22.5 million, non-cash impairment charges of tangible fixed assets and right-of-use assets of $4.7 million and $5.2 million of legal, advisers, closure and related costs.

The Group accelerated the implementation of this strategic project during the year ended 31 December 2022, delivering in-year efficiencies in 2022 ahead of the Group's expectations. In addition, the Group expect to deliver total savings of $70 million by 2024, a significant increase on the $50 million the Group previously expected to deliver. The additional $20 million savings will primarily arise from the transformation of Asian operations, in particular in China and India.

During the previous year ended 31 December 2021, exceptional strategic project costs of $3.7 million were incurred which included advisers' costs of $0.9 million, impairment charges relating to plant and equipment in North America of $2.0 million and closure and 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.

Profit from sale of property – During the year ended 31 December 2022 a profit of $1.2 million was made from the sale of a property as part of the above strategic project.

Acquisition related items

Acquisition related items are set out below:

Year ended 31 December	2022 US$m	2021 US$m
Acquisition related items:		
Administrative expenses:		
Acquisition transaction costs	**11.9**	12.4
Amortisation of acquired intangible assets	**10.8**	3.3
Acquisition earnouts and contingent consideration	**–**	0.1
	22.7	15.8
Finance costs:		
Acquisition transaction costs	**1.1**	–
Total acquisition related items before taxation	**23.8**	15.8

Acquisition transaction costs charged to administrative expenses during the year ended 31 December 2022 of $11.9 million include transaction costs relating to the acquisitions of Texon and Rhenoflex (see note 31).

Acquisition transaction costs charged to finance costs during the year ended 31 December 2022 of $1.1 million relate to the $240.0 million term loan acquisition facility used to finance the acquisition of Texon (see note 31).

During the year ended 31 December 2021, the Group pursed several acquisition opportunities and as a result incurred transaction costs of $12.4 million

Acquisition transaction costs and amortisation of intangible assets acquired through business combinations are not included within adjusted operating profit and adjusted earnings per share. These costs are acquisition related and management consider them to be capital in nature and are not included in profitability measures by which management assess the 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 trading performance of the business.

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.

Notes to the financial statements cont.

5 Profit for the year (including discontinued operations)

Year ended 31 December	2022 US$m	2021 US$m
Profit for the year is stated after charging/(crediting):		
Amortisation of intangible assets	**12.6**	6.0
Depreciation of owned property, plant and equipment	**26.5**	28.2
Depreciation of right-of-use assets	**19.4**	19.4
(Profit)/loss on disposal of property, plant and equipment	**(1.1)**	0.1
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	**1.0**	0.7
– Fees payable for the audit of the Company's subsidiaries	**1.7**	1.5
Other Deloitte services:		
– Taxation services	**0.1**	0.2
– Other services	**0.1**	0.2
Total fees charged by Deloitte LLP	**2.9**	2.6
Research and development expenditure	**6.2**	6.1
Bad and doubtful debts	**1.1**	(0.2)
Net foreign exchange losses	**3.5**	0.5
Rental income from land and buildings	**(0.2)**	(0.2)
Inventory as a material component of cost of sales	**728.2**	631.4
Inventory write-downs to net realisable value	**4.1**	5.3

6 Finance income

Year ended 31 December	2022 US$m	2021* US$m
Income from investments	**0.1**	0.1
Net monetary gain arising from hyperinflation accounting (see note 1)	**1.9**	–
Other interest receivable and similar income	**0.6**	0.3
	2.6	0.4

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

7 Finance costs

Year ended 31 December	2022 US$m	2021* US$m
Interest on bank and other borrowings	**18.9**	10.4
Interest expense on lease liabilities	**4.9**	5.2
Net interest on pension scheme assets and liabilities	**0.5**	4.1
Other finance costs including unrealised gains and losses on foreign exchange contracts	**9.1**	2.1
	33.4	21.8

Other finance costs for the year ended 31 December 2022 include acquisition related transaction costs of $1.1 million incurred in connection with the $240.0 million term loan acquisition facility used to finance the acquisition of Texon (see note 4).

8 Staff costs

The average monthly number of employees was:

Year ended 31 December	2022	2021*
Continuing operations[1]:		
Manufacturing	**14,329**	13,819
Other staff	**3,384**	3,179
	17,713	16,998
Discontinued operations[2]	**1,240**	1,475
Total number of employees	**18,953**	18,473
Comprising:		
UK	**256**	182
Overseas	**18,697**	18,291
	18,953	18,473
The total numbers employed at the end of the year were:		
UK	**228**	179
Overseas	**16,415**	17,374
	16,643	17,553
Discontinued operations	**–**	1,264
Total number of employees	**16,643**	18,817

1. The 2022 average number of employees for continuing operations includes the acquired Texon and Rhenoflex businesses from their respective acquisition dates of 20 July 2022 and 23 August 2022 through to 31 December 2022 (see note 31).
2. The 2022 average number of employees for the discontinued Brazil and Argentina business are for the period until disposal on 10 May 2022 (see note 32).

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Notes to the financial statements cont.

8 Staff costs cont.

Year ended 31 December	2022 US$m	2021* US$m
Employee aggregate remuneration comprised (including directors)[1]:		
Wages and salaries	**288.1**	304.6
Social security costs	**28.2**	29.7
Other pension costs (note 10)	**9.4**	10.0
	325.7	344.3
Discontinued operations	**5.6**	12.3
	331.3	356.6

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).

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

9 Tax on profit from continuing operations

Year ended 31 December	2022 US$m	2021* US$m
UK Corporation tax at 19% (2021: 19%)	**–**	–
Overseas tax charge	**(56.2)**	(55.0)
Deferred tax (charge)/credit	**(0.2)**	1.9
Total tax charge	**(56.4)**	(53.1)

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

The overseas tax charge includes withholding tax charges and other taxes not based on profits for the year ended 31 December 2022 of $13.3 million (2021: $12.1 million).

For the year ended 31 December 2022 the tax credit in respect of exceptional and acquisition related items was $3.7 million (2021: $0.2 million). This includes exceptional tax credits of $2.0 million relating to exceptional strategic projects and $1.7 million relating to the unwinding of tax liabilities on the amortisation of intangible assets acquired as a result of the acquisitions of Texon and Rhenoflex during the year ended 31 December 2022 (refer to note 32).

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

	2022				2021*			
Year ended 31 December	Adjusted US$m	Exceptional and acquisition related items US$m	Other adjustments[1] US$m	Total US$m	Adjusted US$m	Exceptional and acquisition related items US$m	Other adjustments[1] US$m	Total US$m
Profit before tax	**206.8**	**(55.0)**	**(0.5)**	**151.3**	181.6	(19.5)	(4.1)	158.0
Expected tax charge/(credit) at the UK statutory rate of 19% (2021: 19%)	**39.3**	**(10.5)**	**(0.1)**	**28.7**	34.5	(3.7)	(0.8)	30.0
Differences between overseas and UK taxation rate	**(2.1)**	**1.8**	**–**	**(0.3)**	(0.1)	1.5	(0.1)	1.3
Non-deductible expenses	**(1.7)**	**5.0**	**–**	**3.3**	0.8	2.0	–	2.8
Non-taxable income	**(0.7)**	**–**	**–**	**(0.7)**	(0.6)	–	–	(0.6)
Local tax incentives	**(0.3)**	**–**	**–**	**(0.3)**	(0.7)	–	–	(0.7)
Utilisation of unrecognised deferred tax assets	**(1.3)**	**–**	**–**	**(1.3)**	(3.5)	–	–	(3.5)
Potential deferred tax assets not recognised	**12.6**	**–**	**(0.4)**	**12.2**	7.7	–	0.4	8.1
Impact of changes in tax rates	**(0.5)**	**–**	**–**	**(0.5)**	1.7	–	–	1.7
Prior year adjustments	**2.0**	**–**	**–**	**2.0**	1.9	–	–	1.9
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	**13.3**	**–**	**–**	**13.3**	12.1	–	–	12.1
Income tax expense/(credit)	**60.6**	**(3.7)**	**(0.5)**	**56.4**	53.8	(0.2)	(0.5)	53.1
Effective tax rate	**29%**	**7%**	**100%**	**37%**	30%	1%	12%	34%

1. Other adjustments consist of net interest on pension scheme assets and liabilities of $0.5 million (2021: $4.1 million).

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Notes to the financial statements cont.

9 Tax on profit from continuing operations cont.

The Group's adjusted 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 adjusted effective rate on pre-tax profits was 29% (2021: 31%). 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 tax liability includes a number of tax provisions, which together total $26.3 million (2021: $20.2 million). The increase in the year is primarily due to $5.6 million of tax provisions relating to acquisitions (see note 31). These provisions relate to management's estimate of the amount of tax payable on open tax returns yet to be agreed with the local tax authorities. The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local Tax Authorities and consequently agreement may not be reached for a number of years. Primarily the tax items for which a provision has been made relate to the interpretation of transfer pricing legislation and practices across the jurisdictions in which the Group operates.

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

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

Taxation paid

During the year the Group made Corporate Income Tax payments in respect of continuing operations (including withholding and dividend distribution taxes) of $54.6 million (2021: $47.8 million). The amount of tax paid in each jurisdiction is as follows:

Year ended 31 December	2022 US$m	2021* US$m
UK	**10.0**	9.3
Vietnam	**16.1**	13.9
India	**3.9**	3.0
Indonesia	**3.3**	4.4
Hong Kong	**3.1**	1.2
Bangladesh	**2.9**	1.8
Turkey	**2.3**	0.4
Tunisia	**2.2**	–
China	**1.8**	3.8
Colombia	**1.6**	1.3
USA	**1.3**	0.1
Hungary	**0.9**	0.7
Thailand	**0.8**	1.0
Pakistan	**0.8**	0.8
Singapore	**0.7**	2.3
Sri Lanka	**0.6**	0.8
Germany	**0.6**	–
Spain	**0.2**	1.0
Poland	**0.2**	0.5
Others (15 countries each less than $0.5 million)	**1.3**	1.5
Total Corporate Income Tax paid	**54.6**	47.8

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Notes to the financial statements cont.

9 Tax on profit from continuing operations cont.

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:

	2022 US$m	2021 US$m
Indonesia	**2.4**	2.9
India	**1.7**	2.0
China	**1.5**	1.9
Vietnam	**1.5**	1.7
Bangladesh	**1.1**	1.8
Thailand	**0.6**	0.5
Estonia	**0.4**	0.6
Others (each less than $0.5 million)	**2.2**	0.4
Total withholding taxes paid	**11.4**	11.8

10 Retirement and other post-employment benefit arrangements

a) Pension and other post-employment costs

Pension and other post-employment costs charged to operating profit for the year were (continuing and discontinued operations):

		US$m	Year ended 31 December 2022 US$m	US$m	Year ended 31 December 2021 US$m
Defined contribution schemes			**5.5**		4.0
Defined benefit schemes –					
	Coats US funded	**–**		2.0	
	Other funded and unfunded	**3.9**		4.0	
			3.9		6.0
Past service cost/(credit)			**1.3**		(0.2)
Settlements			**0.1**		(3.5)
Administrative expenses for defined benefit schemes			**4.7**		5.0
			15.5		11.3

b) Defined contribution schemes

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

c) Defined benefit schemes

The Group operates various defined benefit pension and other post-employment arrangements in most of the countries in which it operates. The most significant defined benefit pension schemes are the Coats UK Pension Scheme and the Coats North America Pension Plan (US Plan) – more details of which are included below. These schemes represent around 95% of the Group's total defined benefit obligations. Both these schemes are pre-funded and report an accounting surplus, whereas the majority of the Group's other arrangements (most significantly in Germany) are unfunded and benefits are met on an ongoing basis by the Group.

The overall balance sheet position for the Group in respect of the defined benefit pension and other post-employment arrangements shows a significant surplus under IAS 19 at the end of the financial year of $105.4 million. This is due mainly to the pre-funded schemes' assets exceeding the IAS 19 measure of their liabilities. Importantly, the measurement of liabilities under IAS 19 differs from local requirements to determine the Group's cash funding of these schemes, which are currently more onerous in the UK in particular and contrary to the IAS 19 position leaves the scheme in a Technical Provision deficit position on the funding basis (albeit significantly improved in recent periods).

Coats UK Pension Scheme

The Coats UK Pension Scheme ("the Scheme") is administered by a trustee. Its assets are 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 (for example the Group).

The sponsor of the Scheme is Coats Limited and the Company provides a guarantee to the Scheme.

The trustee board is responsible for setting the Scheme's investment policy following consultation with the wider Group. Over the majority of the financial year, the trustee board operated 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. This policy was augmented in December by the purchase of a bulk annuity as summarised below.

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

Cash funding commitments

The Scheme is subject to full actuarial valuations every three years using assumptions agreed between the trustee board and the wider Group. The purpose of this valuation is to design a cash funding plan to ensure that the pension scheme has sufficient assets available to meet the future payment of benefits to Scheme members. It is this funding valuation basis, not accounting valuations under IAS 19, that determines the cash funding the Group provides to the Scheme.

The valuation of liabilities for funding purposes differs from the IAS 19 valuation used for accounting purposes, mainly due to the different actuarial assumptions used. To calculate the funding valuation liabilities (the "Technical Provisions") the assumptions agreed with the trustee board must be set more prudently overall, with the discount rate in particular reflecting a relatively cautious expectation of future returns on the Scheme's assets. In contrast, under IAS 19, all the assumptions used to value the liabilities are the Company directors' central best estimates according to established accounting principles with the exception of the discount rate, which is based on high-quality (AA rated) corporate bond yields regardless of scheme investment strategy and therefore differs in practice to the funding basis of valuation.

In November 2021, the Group and the trustee board agreed the latest funding valuation of the Scheme with an effective date of 31 March 2021. This showed a prudent Technical Provisions (funding) deficit of £193 million ($261 million at 31 December 2021 exchange rates) and resulted in agreed ongoing deficit recovery payments of £22 million per annum ($27 million) until 31 December 2028. These payments are uprated each year by the increase in the UK Retail Prices Index, but capped at 5% in any year. The difference between the agreed schedule of payments which total around £170 million and the overall deficit of £193 million is expected to be met by modest asset outperformance vs valuation assumptions over the c.7 year period. The Group also meets the Scheme's administrative expenses and levies estimated at £4 million ($5 million) per annum.

In addition, over a number of months from May 2021 the Group had committed to pay circa $21 million of agreed deficit recovery payments that fell due in 2020, but were deferred as part of Covid underpinning actions. The final monthly "catch-up" payment was made in November 2022.

Latest funding valuation estimate

Recent updates indicate the funding deficit has fallen significantly and is now approaching fully funded on a Technical Provisions basis. This significant improvement has been due to employer contributions, favourable movements in the market (increasing discount rates) and the de-risking actions that the Group have taken, for example the pensioner buy-in transaction referred to below. As a result of this significantly improved funding position, and reflective of the collaborative working relationship with the Trustees, the Group has agreed a mechanism to switch off / switch on the regular cash contributions to the Coats UK Pension Scheme based on monthly estimates of the latest funding position. As such, if the Scheme remains in surplus for a consecutive number of months cash contributions will cease entirely until any trigger on the downside (i.e. a return to deficit) has been hit. At this point, contributions on a pre-agreed basis would resume.

Pensioner buy-in

In December 2022, the trustee board purchased a circa £350 million bulk annuity policy from Aviva, which insures all the benefits payable in respect of around 3,700 pensioner members (a "pensioner buy-in"). This policy will see all financial and demographic risks, including those related to longevity, covered for approximately 20% of Scheme members. The bulk annuity policy is an asset of the Scheme. Under IAS 19 it is deemed a qualifying insurance policy, due to it exactly matching the amount and timing of benefits payable by the Scheme to the covered members. Under IAS 19, the value of the bulk annuity policy is therefore set equal to the corresponding IAS 19 liabilities for covered members; not the premium paid. Given the favourable pricing at the point of transaction, the pensioner buy-in has no material impact on the Group's balance sheet or future income statements on an IAS 19 basis.

Coats North America Pension Plan

The Coats North America Pension Plan (Coats US) 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.

The following disclosures are required in accordance with the requirements of IAS 19 and do not include information in respect of schemes operated by joint ventures. The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent formal actuarial valuations of the schemes (effective at 31 March 2021 and 1 January 2022 for the UK and US respectively), updated to take account of the valuations of assets and liabilities as at 31 December 2022.

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

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

i) Principal risks

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

Risk	Description	Commentary
Interest rate risk	The present value of the defined benefit plan liabilities is calculated using a discount rate determined by reference to bond yields. A decrease in bond yield rates will increase defined benefit obligations.	The impact of the movement in discount rates are shown on page 141. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. The Coats UK Pension Scheme is currently over 90% (2021: over 85%) 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 141. 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 90% (2021: over 85%) 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 141. Currently this is a risk that is largely unhedged by the Group's pension schemes. However, the UK scheme's recent £350 million pensioner buy-in with Aviva hedges roughly 20% of its longevity risk.
Investment risk	The scheme assets are shown on a mark-to-market basis. A decrease in asset values at a relevant measurement date, to the extent assets do not hedge liabilities, would lead to an increased disclosed deficit or reduced surplus.	The UK funded scheme is diversified by asset class, at individual securities level; geography; and by investment managers. To the extent that any assets are not Sterling denominated the scheme hedges the majority of this currency exposure back to Sterling. The US scheme is fully funded and has a significant proportion of fixed income. The fixed income is invested directly to protect the funded status of the scheme. Trustees work with fixed income managers to consider the liabilities (including key period durations, credit spread duration and convexity) and have created a custom fixed income benchmark to match the liabilities and protect the funded status. In addition the schemes' investment policies recognise the need to generate cash flows to meet members' benefits as they fall due.
Liquidity risk	The scheme needs available financial resources to meet obligations when they fall due. Not being able to sell assets in a timely manner for the expected valuation could lead to an increased disclosed deficit or reduced surplus.	The schemes' investment policies recognise the need to generate cash flows to meet members' benefits as they fall due. In addition, the UK scheme's hedging policy is run using low leverage in order to maintain strong liquidity, even after the pensioner buy-in transaction. The scheme suffered no meaningful impacts during the well documented market issues over September and October 2022, which faced those UK schemes relying heavily on "LDI" strategies.

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

ii) Principal assumptions

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

Principal assumptions at 31 December 2022	Coats UK Pension Scheme %	Coats US %	Other %
Rate of increase in salaries	–	–	5.7
Rate of increase for pensions in payment	Various	–	4.1
Discount rate	4.8	5.2	5.7
Inflation assumption	3.3	–	4.5

Principal assumptions at 31 December 2021	Coats UK Pension Scheme %	Coats US %	Other %
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

The rate of increase for pensions in payment for members of the combined Coats UK Pension Scheme vary in accordance with each member's former scheme category and period of membership. For former Coats UK plan members the increases for pensions in payment are assumed to be at a rate of 3.0% (2021: 3.4%). For former Staveley scheme members, the majority of the increases for pensions in payment fall within the range 2.2%–3.0% (2021: 2.6%–3.4%). For former Brunel scheme members, the majority of the increases for pensions in payment fall within the range 3.4%–4.0% (2021: 3.2%–4.0%).

The assumed life expectancy on retirement is:

	Year ended 31 December 2022		Year ended 31 December 2021	
	Coats UK Pension Scheme Years	Coats US Years	Coats UK Pension Scheme Years	Coats US Years
Retiring today at age 60:				
Males	25.6	24.9	25.8	24.8
Females	28.5	27.1	28.6	27.0
Retiring in 20 years at age 60:				
Males	27.1	26.6	27.3	26.5
Females	29.9	28.6	30.0	28.6

iii) 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 2022	Coats UK Pension Scheme US$m	Coats US US$m	Other US$m	Group US$m
Current service cost	–	–	(3.9)	(3.9)
Past service cost	–	(1.2)	(0.1)	(1.3)
Settlements	–	–	(0.1)	(0.1)
Administrative expenses	(4.1)	(0.5)	(0.1)	(4.7)
	(4.1)	(1.7)	(4.2)	(10.0)
Interest on defined benefit obligations – unwinding of discount	(50.0)	(1.3)	(3.5)	(54.8)
Interest income on pension scheme assets	52.2	3.9	0.5	56.6
Effect of asset cap	–	(2.3)	–	(2.3)
	2.2	0.3	(3.0)	(0.5)

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)

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

iv) Amounts recognised in the consolidated statement of comprehensive income

Actuarial gains and losses were as follows:

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Effect of changes in demographic assumptions	**10.8**	(30.7)
Effect of changes in financial assumptions	**941.1**	125.7
Effect of experience adjustments	**(67.7)**	64.3
Remeasurement on assets (excluding interest income)	**(855.5)**	50.6
Adjustment due to surplus cap	**31.1**	2.9
Included in the statement of comprehensive income	**59.8**	212.8

v) 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 2022	Coats UK Pension Scheme US$m	Coats US US$m	Other US$m	Total US$m
Cash and cash equivalents	64.6	1.6	4.2	70.4
Equity instruments:				
US	47.6	12.3	0.6	60.5
UK	3.1	1.1	–	4.2
Eurozone	8.4	4.5	–	12.9
Other regions	20.1	7.0	1.2	28.3
Debt instruments:				
Corporate bonds (Investment grade)	428.2	43.6	1.6	473.4
Corporate bonds (Non-investment grade)	89.4	1.7	–	91.1
Government/sovereign instruments	562.9	24.7	–	587.6
Global real estate	238.5	–	–	238.5
Derivatives:				
Total return, interest and inflation swaps	(20.7)	–	–	(20.7)
Assets held by insurance company:				
Insurance contracts	391.6	0.5	0.8	392.9
Diversified investment fund	5.5	–	–	5.5
Other	127.7	–	–	127.7
Total market value of assets	1,966.9	97.0	8.4	2,072.3
Actuarial value of scheme liabilities	(1,786.2)	(29.3)	(96.7)	(1,912.2)
Net asset/(liability) in the scheme	180.7	67.7	(88.3)	160.1
Adjustment due to surplus cap	–	(54.7)	–	(54.7)
Recoverable net asset/(liability) in the scheme	180.7	13.0	(88.3)	105.4

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

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

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

Year ended 31 December	2022 US$m	2021 US$m
Non-current assets:		
Funded	**222.7**	159.7
Current assets:		
Funded	**2.0**	5.2
Current liabilities:		
Funded	**(27.6)**	(41.9)
Unfunded	**(5.0)**	(6.1)
Non-current liabilities:		
Funded	**(3.3)**	(5.6)
Unfunded	**(83.4)**	(90.2)
	105.4	21.1

The schemes disclosed as part of the ‘other’ column in the tables above include surplus positions of $3.7 million (2021: $3.8 million).

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(3,196.7)**	(3,588.5)
Current service cost	**(3.9)**	(6.0)
Decrease in liabilities on settlements	**0.4**	69.6
Past service (cost)/credit	**(1.3)**	0.2
Interest on defined benefit obligations – unwinding of discount	**(54.8)**	(46.5)
Actuarial gains on obligations	**884.2**	159.3
Contributions from members	**(0.1)**	(0.1)
Benefits paid	**157.2**	177.1
Net movement due to acquisitions and disposals of subsidiaries	**(3.6)**	–
Exchange difference	**306.4**	38.2
At 31 December	**(1,912.2)**	(3,196.7)
Movements in the fair value of scheme assets were as follows:		
At 1 January	**3,301.5**	3,447.1
Interest income on scheme assets	**56.6**	44.4
Remeasurement on assets (excluding interest income)	**(855.5)**	50.6
Decrease in assets on settlements	**(0.5)**	(66.1)
Assets transferred out of schemes	**–**	(7.0)
Contributions from members	**0.1**	0.1
Contribution from sponsoring companies	**46.3**	44.2
Benefits paid	**(157.2)**	(177.1)
Net movement due to acquisitions and disposals of subsidiaries	**(4.7)**	–
Administrative expenses paid from plan assets	**(0.6)**	(1.0)
Exchange difference	**(313.7)**	(33.7)
At 31 December	**2,072.3**	3,301.5

Administrative expenses paid from plan assets excludes those expenses paid directly by the Group.
The reconciliation of the effect of the asset ceiling is as follows:

	Year ended 31 December 2022 US$m	Year ended 31 December 2021 US$m
Unrecognised surplus at 1 January	**83.7**	84.4
Interest cost on unrecognised surplus	**2.3**	2.2
Changes in the effect of limiting a net defined benefit asset to the asset ceiling (excluding interest)	**(31.3)**	(2.9)
Unrecognised surplus at 31 December	**54.7**	83.7

vi) Assets without a quoted price in an active market

For the Coats UK Pension Scheme, all assets in the table in section v of this note, except for cash and cash equivalents, do not have a quoted price in an active market. For the Coats US scheme, included in the in section v of this note are $nil (2021: $0.4 million) US equity instruments, $43.6 million (2021: $68.7 million) of corporate bonds (Investment grade), $1.7 million (2021: $2.6 million) of corporate bonds (Non-investment grade) and $0.5 million (2021: $0.5 million) of insurance contracts without a quoted price in an active market. All other assets have a quoted price in an active market.

vii) 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.

viii) 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 in 2019, Coats retains the previously incurred pension obligations from the business. The pension scheme was in a surplus position of $67.7 million at 31 December 2022 of which a recoverable surplus of $13.0 million is recognised on the Balance Sheet.

The Coats UK Pension Scheme moved into an IAS 19 surplus position during the previous year. 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.

Notes to the financial statements cont.

10 Retirement and other post-employment benefit arrangements cont.

ix) Duration of plan liabilities

The weighted average duration of benefit obligations is 12 years (2021: 15 years) for the Coats UK scheme and 9 years (2021: 11 years) for the Coats US scheme.

x) 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:

	+0.25% US$m	Year ended 31 December 2022 -0.25% US$m	+0.25% US$m	Year ended 31 December 2021 -0.25% US$m
Coats UK Pension Scheme discount rate	**(51.4)**	**53.9**	(108.8)	115.0
Coats US discount rate	**(0.7)**	**0.7**	(1.2)	1.3
Coats UK Pension Scheme inflation rate	**28.0**	**(30.1)**	74.6	(72.0)
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 $192.3 million and $2.6 million (2021: $401.4 million and $4.9 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 $232.2 million and $3.1 million (2021: $502.7 million and $6.0 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 136, the Coats UK Pension Scheme is currently over 90% 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.

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by $59.8 million (2021: $105.8 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by $0.4 million (2021: $0.7 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.

	+1% US$m	Year ended 31 December 2022 -1% US$m	+1% US$m	Year ended 31 December 2021 -1% US$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	**0.8**	**(0.7)**	1.5	(1.4)

xi) Expected contributions for 2023

The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2023 financial year (excluding administrative expenses paid by the Company) is $31.6 million. The amount of contributions for the 2023 financial year will be lower in the event that regular cash contributions to the Coats UK pension scheme are switched off under the mechanism set out above.

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.

Notes to the financial statements cont.

11 Earnings per ordinary share cont.

Year ended 31 December	2022 US$m	2021* US$m
Profit from continuing operations attributable to equity shareholders	72.9	85.2
(Loss)/profit from continuing and discontinued operations attributable to equity shareholders	(14.7)	88.9

Year ended 31 December	2022 Number of shares m	2021 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	1,516.0	1,457.1
Adjustment for share options and LTIP awards	9.3	5.9
Weighted average number of ordinary shares in issue for diluted earnings per share	1,525.3	1,463.0

Year ended 31 December	2022 cents	2021* cents
Continuing operations:		
Basic earnings per ordinary share	4.80	5.84
Diluted earnings per ordinary share	4.77	5.82
Continuing and discontinued operations:		
Basic (loss)/earnings per ordinary share	(0.98)	6.10
Diluted (loss)/earnings per ordinary share	(0.97)	6.07

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

12 Dividends

Year ended 31 December	2022 US$m	2021 US$m
2022 interim dividend paid – 0.70 cents per share	11.1	–
2021 final dividend paid – 1.50 cents per share	21.8	–
2021 interim dividend paid – 0.61 cents per share	–	8.8
2020 final dividend paid – 1.30 cents per share	–	18.8
	32.9	27.6

The proposed final dividend of 1.73 cents per ordinary share for the year ended 31 December 2022 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 2023 to ordinary shareholders on the register on 28 April 2023, with an ex-dividend date of 27 April 2023.

13 Intangible assets

		Acquired intangibles					
Cost	Goodwill US$m	Brands & trade names US$m	Technology US$m	Customer relationships US$m	Total acquired US$m	Computer software US$m	Total US$m
At 1 January 2021	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
Currency translation differences	–	0.3	(0.3)	1.0	1.0	(1.7)	(0.7)
Acquisition of subsidiaries (see note 31)	98.5	40.9	40.5	158.8	240.2	0.6	339.3
Additions	–	–	–	–	–	2.1	2.1
Disposals	–	–	–	–	–	(2.5)	(2.5)
At 31 December 2022	124.7	284.5	57.4	166.6	508.5	76.1	709.3
Cumulative amounts charged							
At 1 January 2021	–	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
Currency translation differences	–	–	(0.7)	(0.1)	(0.8)	(1.6)	(2.4)
Amortisation charge for the year	–	2.1	3.6	5.1	10.8	1.8	12.6
Disposals	–	–	–	–	–	(2.5)	(2.5)
At 31 December 2022	–	3.8	13.6	7.9	25.3	70.6	95.9
Net book value at 31 December 2022	124.7	280.7	43.8	158.7	483.2	5.5	613.4
Net book value at 31 December 2021	26.2	241.6	6.5	3.9	252.0	4.7	282.9

Notes to the financial statements cont.

13 Intangible assets cont.

The carrying value of Coats brands at 31 December 2022 and 31 December 2021 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 fair value measurement is categorised in its entirety in line with level 3 of the fair value hierarchy. The valuation has been based on the latest budget and medium-term plan approved by the Board, covering the period to 31 December 2025, applying a pre-tax discount rate of 11.6% (2021: 10.5%) and long-term growth of 2.7% (2021: 2.7%). 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 Group completed two acquisitions during the year obtaining control of both Texon and Rhenoflex, leading manufacturers of structural footwear components supplying the world's leading footwear brands (see note 31). The provisional goodwill arising from these acquisitions has initially been allocated to a new Structural Footwear Components CGU. This initial allocation will be reviewed next year following further integration of Structural Footwear Components with the pre-existing Coats footwear and thread business.

As set out in note 4, during the current year the Group commenced a strategic project to mitigate structural labour availability issues in the US. As a result, a new facility was established in Mexico, and certain manufacturing processes were transferred from the US to Mexico. The Group has also integrated a number of key business processes of the US and Mexico businesses, and a significant proportion of US sales will now be fulfilled by Mexico. As such, the Group views the US and Mexico businesses as manufacturing sites serving customers in the US and Mexico rather than separate businesses. As the cash inflows of the US and Mexico are inter-dependent, the Group considers goodwill arising from previous US acquisitions (Pharr HP and Patrick Yarn) to be allocated to the single CGU of US and Mexico. This is consistent with the information used by the Board to monitor the goodwill arising from these acquisitions for impairment.

The carrying amount of goodwill has been allocated as follows:

Year ended 31 December	2022 US$m	2021 US$m
Structural Footwear Components	**100.1**	–
Gotex	**12.3**	13.0
US and Mexico	**2.6**	2.6
Coats Digital	**8.0**	8.8
Other	**1.7**	1.8
	124.7	26.2

The carrying value of the provisional goodwill allocated to the Structural Footwear Components CGU, relating to the Texon and Rhenoflex businesses, which were acquired during the second half of 2022 was tested for impairment at the year end. The original business case cash flow forecasts which underpinned the amount of provisional goodwill recognised were reviewed, factoring in management's latest view of the future outlook. No material adjustments were deemed necessary to the original business case cash flow forecasts.

The carrying value of the goodwill allocated to the Gotex, US and Mexico and Coats Digital 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 2025;

– discount rates; and

– growth rates used to extrapolate risk adjusted cash flows beyond the medium-term period.

Notes to the financial statements cont.

13 Intangible assets cont.

CGU specific operating assumptions are applicable to the cash flows for the years 2023 to 2025 and relate to revenue forecasts and forecast operating margins. A short-term growth rate is applied to the December 2025 plan to derive the cash flows arising in 2026–2027 and a long-term rate is applied to 2027 to determine a terminal value. Revenue growth and operating margin improvement assumptions in 2026–2027 are as follows:

	Revenue growth 2026 %	Revenue growth 2027 %	Operating margin improvement 2026 %	Operating margin improvement 2027 %
Gotex	**7.5**	**3.0**	**0.7**	**–**
US and Mexico	**5.0**	**5.0**	**0.1**	**0.2**
Coats Digital	**33.3**	**5.0**	**1.0**	**–**

The pre-tax discount rates applied to the cash flow forecasts are derived from the Group's post-tax weighted average cost of capital. The Group's weighted average cost of capital 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 11.6% (2021: 10.5%) 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 14.0% for Gotex, 11.9% for US and Mexico, and 14.2% 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 1,100 bps in Gotex, 470 bps in US and Mexico and 1,700 bps in Coats Digital; or
- cumulative 2023–2027 revenue is 54% lower in Gotex, 23% lower in US and Mexico and 49% lower in Coats Digital; or
- cumulative 2023–2027 operating profit is 47% lower in Gotex, 34% lower in US and Mexico and 68% 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.

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 2021	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
Currency translation differences	**(4.9)**	**(24.8)**	**(2.5)**	**(32.2)**
Application of IAS 29 (see note 1)	**–**	**7.3**	**–**	**7.3**
Acquisition of subsidiaries (see note 31)	**10.2**	**12.9**	**0.6**	**23.7**
Disposal of subsidiaries (see note 32)	**(8.9)**	**(30.2)**	**(3.9)**	**(43.0)**
Additions	**3.4**	**24.4**	**2.4**	**30.2**
Disposals	**(3.3)**	**(11.7)**	**(1.1)**	**(16.1)**
At 31 December 2022	**157.4**	**529.1**	**60.9**	**747.4**

Cumulative amounts charged				
At 1 January 2021	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	56.1	533.0
Currency translation differences	**(2.9)**	**(18.5)**	**(2.2)**	**(23.6)**
Depreciation charge for the year	**4.7**	**19.3**	**2.5**	**26.5**
Impairment charge (see note 4)	**–**	**1.7**	**0.1**	**1.8**
Disposal of subsidiaries (note 32)	**(3.7)**	**(25.5)**	**(3.0)**	**(32.2)**
Disposals	**(1.8)**	**(11.6)**	**(1.0)**	**(14.4)**
At 31 December 2022	**75.4**	**363.2**	**52.5**	**491.1**
Net book value at 31 December 2022	**82.0**	**165.9**	**8.4**	**256.3**
Net book value at 31 December 2021	81.8	153.4	9.3	244.5

Notes to the financial statements cont.

14 Property, plant and equipment cont.

Analysis of net book value of land and buildings 31 December	2022 US$m	2021 US$m
Freehold	**64.2**	67.8
Leasehold improvements:		
Over 50 years unexpired	**2.7**	1.8
Under 50 years unexpired	**15.1**	12.2
	82.0	81.8

15 Leases

The Group leases several assets including buildings, plants, vehicles and office equipment. The average lease term is 5 years (2021: 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 2022	80.4	4.5	6.7	91.6
At 31 December 2022	**87.5**	**3.7**	**5.3**	**96.5**
Depreciation expense for the year ended				
31 December 2021	14.3	2.1	3.0	19.4
31 December 2022	**14.1**	**2.5**	**2.8**	**19.4**

Additions to the right-of-use assets during the year ended 31 December 2022 were $23.9 million (2021: $51.1 million).

Lease liabilities

Year ended 31 December	2022 US$m	2021 US$m
Current	**19.0**	17.8
Non-current	**86.4**	81.2
	105.4	99.0

Lease liability maturity analysis	Undiscounted 2022 US$m	Undiscounted 2021 US$m	Discounted 2022 US$m	Discounted 2021 US$m
Payable within one year	**24.2**	22.6	**19.0**	17.8
Payable between one and two years	**20.9**	19.4	**16.5**	15.6
Payable between two and five years	**43.5**	38.9	**32.9**	31.3
Payable after more than five years	**46.6**	40.4	**37.0**	34.3
At 31 December 2022	**135.2**	121.3	**105.4**	99.0

The net increase in lease liabilities during the year ended 31 December 2022 was $6.4 million (2021: $33.0 million) which includes foreign exchange gains on lease liabilities of $6.6 million (2021: $0.2 million). The total cash outflow for leases in the year ended 31 December 2022 was $23.0 million (2021: $22.1 million).

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

Year ended 31 December	2022 US$m	2021 US$m
Depreciation expense	**19.4**	19.4
Interest expense on lease liabilities	**4.9**	5.2
Expenses relating to short term leases	**0.6**	1.1
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	**0.5**	0.6
Impairment of right-of-use assets	**2.9**	–
Income from subleasing right-of-use assets	**(0.2)**	(0.2)

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

Year ended 31 December	2022 US$m	2021 US$m
Receivable within one year	**0.1**	–
Receivable between one and two years	**0.1**	–
	0.2	–

16 Non-current investments

Year ended 31 December	2022 US$m	2021 US$m
Interests in joint ventures (see below)	**13.1**	12.0
Investments in equity securities:		
Unlisted investments	**5.9**	6.0
	19.0	18.0

Notes to the financial statements cont.

16 Non-current investments cont.

Interests in joint ventures	US$m
At 1 January 2022	12.0
Acquisitions (see note 31)	0.7
Dividends receivable	(0.5)
Share of profit after tax	0.9
At 31 December 2022	**13.1**

Year ended 31 December	2022 US$m	2021 US$m
Share of net assets on acquisition	**11.3**	10.6
Share of post-acquisition retained profits	**1.8**	1.4
Share of net assets	**13.1**	12.0

The following table provides summarised financial information on the Group's share of its joint ventures, relating to the period during which they were joint ventures, and excludes goodwill:

Year ended 31 December	2022 US$m	2021 US$m
Summarised income statement information:		
Revenue	**28.7**	27.9
Profit before tax	**1.2**	1.7
Taxation	**(0.3)**	(0.5)
Profit after tax	**0.9**	1.2

Year ended 31 December	2022 US$m	2021 US$m
Summarised balance sheet information:		
Non-current assets	**5.5**	5.6
Current assets	**15.4**	15.0
	20.9	20.6
Liabilities due within one year	**(7.8)**	(8.6)
Net assets	**13.1**	12.0

17 Deferred tax assets

Year ended 31 December	2022 US$m	2021 US$m
Deferred tax assets	**24.4**	20.7

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:

	2022 US$m	2021 US$m
At 1 January	**20.7**	22.7
Currency translation differences	**–**	(0.6)
Acquisition of subsidiaries (note 31)	**3.3**	–
Reclassified from deferred tax liability	**–**	(0.1)
Transfer to current tax	**–**	–
Credited/(charged) to the income statement	**1.8**	(0.3)
Charged to other comprehensive income and expense	**(1.4)**	(1.0)
At 31 December	**24.4**	20.7

18 Inventories

Year ended 31 December	2022 US$m	2021 US$m
Raw materials and consumables	**98.0**	127.7
Work in progress	**32.3**	38.0
Finished goods and goods for resale	**81.1**	84.4
	211.4	250.1

Notes to the financial statements cont.

19 Trade and other receivables

Year ended 31 December	2022 US$m	2021 US$m
Non-current assets:		
Trade receivables	**0.9**	1.1
Other receivables	**15.3**	20.5
Prepaid pension contributions	**4.0**	5.8
Derivative financial instruments	**–**	1.3
	20.2	28.7
Current assets:		
Trade receivables	**235.5**	240.4
Current income tax assets	**7.0**	6.4
Prepayments and accrued income	**7.4**	7.0
Derivative financial instruments	**1.6**	4.2
Prepaid pension contributions	**1.6**	1.2
Amounts due from joint ventures	**–**	0.1
Other receivables	**33.2**	43.4
	286.3	302.7

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

Interest charged in respect of overdue trade receivables is immaterial.

Included within trade receivables is $6.6 million (2021: $7.7 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 $7.6 million (2021: $8.9 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. Impairment has been considered for other receivables, and is considered not to be significant.

The loss allowance has been determined as follows:

	Current	1–3 months past due	3–6 months past due	6+ months past due	Total 2022
Expected loss rate	**0.3%**	**2%**	**26%**	**79%**	
Gross carrying amount (US$m)	**204.8**	**29.2**	**2.7**	**7.3**	**244.0**
Loss allowance provision (US$m)	**0.6**	**0.5**	**0.7**	**5.8**	**7.6**

	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

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

	2022 US$m	2021 US$m
At 1 January	**8.9**	10.2
Currency translation differences	**(0.5)**	(0.6)
Acquisition of subsidiaries	**0.7**	–
Disposal of subsidiaries	**(2.1)**	–
Charged/(credited) to the income statement	**1.1**	(0.2)
Amounts written off during the year	**(0.5)**	(0.5)
At 31 December	**7.6**	8.9

As at 1 January 2021, trade receivables amounted to $224.1 million (net of loss allowance of $10.2 million).

20 Derivative financial instruments – assets

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

Year ended 31 December	2022 US$m	2021 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**1.6**	3.6
Interest rate swap contracts	**–**	1.9
	1.6	5.5
Amounts shown within non-current assets	**–**	1.3
Amounts shown within current assets	**1.6**	4.2

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

Notes to the financial statements cont.

21 Trade and other payables

Year ended 31 December	2022 US$m	2021 US$m
Amounts falling due within one year:		
Trade payables	**151.3**	208.5
Amounts owed to joint ventures	**15.0**	16.3
Other tax and social security payable	**8.9**	7.7
Other payables	**30.8**	36.7
Accruals	**43.9**	50.8
Contract liabilities	**7.9**	6.8
Derivative financial instruments	**6.0**	0.8
Employee entitlements	**14.6**	19.2
	278.4	346.8
Amounts falling due after more than one year:		
Other payables	**20.7**	21.3
Contract liabilities	**1.5**	1.7
Employee entitlements	**1.1**	1.1
Derivative financial instruments	**3.0**	0.1
	26.3	24.2

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

Interest paid to suppliers in respect of overdue trade payables is immaterial.

Contract liabilities amounting to $6.6 million (2021: $6.7 million) which were outstanding at 31 December 2021 were released to revenue during the year ended 31 December 2022, with the remainder expected to be released in 2023 and 2024.

22 Derivative financial instruments – liabilities

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

Year ended 31 December	2022 US$m	2021 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**5.9**	0.9
Interest rate swap contracts	**3.1**	–
	9.0	0.9
Amounts shown within non-current liabilities	**3.0**	0.1
Amounts shown within current liabilities	**6.0**	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	2022 US$m	2021 US$m
Bank overdrafts	**14.7**	16.4
Borrowings repayable within one year	**2.0**	2.8
Due within one year	**16.7**	19.2
Borrowings repayable between one and two years	**360.4**	–
Borrowings repayable between two and five years	**189.7**	135.1
Due after more than five years	**–**	100.0
Due after more than one year	**550.1**	235.1
Bank overdrafts	**14.7**	16.4
Series A and Series B Senior Notes	**222.3**	227.5
Bank and other borrowings	**329.8**	10.4
	566.8	254.3

On 6 December 2017 the Group issued $125.0 million of 3.88% Series A Senior Notes due 6 December 2024 and $100.0 million of 4.07% Series B Senior Notes due 6 December 2027 in a US private placement. Interest is payable semi-annually in arrears on 6 June and 6 December of each year beginning on 6 June 2018. The Senior Notes are unsecured and rank equally with all the Group's other unsecured and unsubordinated indebtedness.

Notes to the financial statements cont.

23 Borrowings cont.

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.

On 20 July 2022, the Group fully drew down on a new $240 million term loan acquisition facility to fund the purchase of Texon (see note 31). This facility was to mature in July 2024, and the Group had an option to extend this term by a further nine months to May 2025. In February 2023, the Group completed the refinancing of this acquisition facility via the US Private Placement market with $250 million of Notes. $150 million 5.26% Series A Senior Notes are due on 16 February 2028 and $100 million 5.37% Series B Senior Notes are due on 16 February 2030.

Series A and Series B Senior Notes at 31 December 2022 of $222.3 million includes a fair value adjustment to the nominal amount outstanding of $2.7 million, for which the Group has interest rate swaps which are accounted for as fair value hedges.

The currency and interest rate profile of the Group's borrowings is included in note 34 on page 163.

24 Deferred tax liabilities

	2022 US$m	2021 US$m
At 1 January	**6.8**	9.0
Currency translation differences	**2.0**	0.2
Acquisition of subsidiaries (note 31)	**54.8**	–
Reclassified from deferred tax assets	**–**	(0.1)
Charged/(credited) to the income statement	**2.0**	(2.2)
Credited to equity	**(0.3)**	(0.1)
At 31 December	**65.3**	6.8

	2022		2021	
	Provided/ (recognised) US$m	Unprovided/ (unrecognised) US$m	Provided/ (recognised) US$m	Unprovided/ (unrecognised) US$m
The Group's net deferred tax liabilities/(assets) are analysed as follows:				
Accelerated tax depreciation on tangible fixed assets	**14.8**	**(17.8)**	13.9	(17.5)
Other temporary differences	**(13.8)**	**(7.6)**	(15.4)	(10.8)
Revenue losses carried forward	**(10.6)**	**(242.1)**	(11.4)	(298.4)
Capital losses carried forward	**–**	**(355.7)**	–	(355.7)
Investment in subsidiaries	**4.5**	**6.8**	5.8	5.3
Acquired intangibles	**51.8**	**–**		
Brands	**50.1**	**–**	59.9	–
Retirement benefit obligations offset against brands	**(50.1)**	**–**	(59.9)	–
Retirement benefit obligations	**(5.8)**	**(1.5)**	(6.8)	(2.8)
	40.9	**(617.9)**	(13.9)	(679.9)

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:

	2022	2021
	Provided/ (recognised) US$m	Provided/ (recognised) US$m
Deferred tax assets (note 17)	**(24.4)**	(20.7)
Deferred tax liabilities	**65.3**	6.8
	40.9	(13.9)

At the year end, the Group had approximately $1.5 billion (2021: $1.6 billion) of unused gross income tax losses and approximately $1.3 billion (2021: $1.4 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of $10.6 million (2021: $11.4 million) has been recognised in respect of $40.7 million (2021: $36.9 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 cont.

24 Deferred tax liabilities cont.

The Group's income tax losses can be analysed as follows:

	2022 US$m	2021 US$m
Expiring within 5 years	**17.0**	33.2
Expiring in more than 5 years	**10.5**	15.5
Available indefinitely	**1,457.8**	1,510.5
	1,485.3	1,559.2

At 31 December 2022, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $6.8 million (2021: $5.3 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	2022 US$m	2021 US$m
Provisions are included as follows:		
Current liabilities	**18.2**	8.1
Non-current liabilities	**25.4**	27.7
	43.6	35.8

Provisions are analysed as follows:

Year ended 31 December	2022 US$m	2021 US$m
Property related provisions	**0.9**	2.1
Other provisions	**42.7**	33.7
	43.6	35.8

	Property related provisions US$m	Other provisions US$m	Total US$m
At 1 January 2022	**2.1**	**33.7**	**35.8**
Currency translation differences	**(0.2)**	**(0.6)**	**(0.8)**
Acquisition of subsidiaries (see note 31)	**–**	**7.4**	**7.4**
Disposal of subsidiaries (see note 32)	**–**	**(0.9)**	**(0.9)**
Utilised in year	**–**	**(49.6)**	**(49.6)**
(Credited)/charged to the income statement	**(1.0)**	**52.7**	**51.7**
At 31 December 2022	**0.9**	**42.7**	**43.6**

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

	2022		2021	
Year ended 31 December	Number	US$m	Number	US$m
Ordinary Shares of 5p each	**1,597,810,385**	**99.0**	1,452,570,385	90.1

During the year ended 31 December 2022 the Company issued 145,240,000 Ordinary shares of 5p each in connection with an equity placing as set out below. The par value of the shares issued was $8.9 million. The proceeds raised net of costs were $109.8 million and were used to fund the acquisition of Rhenoflex GmbH (see note 31). During the year ended 31 December 2021 the Company issued 493,113 Ordinary shares of 5p each following the exercise of awards under the Group's share based incentive plans.

	Number of shares	US$m
At 1 January 2022	**1,452,570,385**	90.1
Issue of ordinary shares	**145,240,000**	8.9
At 31 December 2022	**1,597,810,385**	99.0

As at 1 January 2021 the company had 1,452,077,272 Ordinary shares in issue. The company has one class of Ordinary shares which carry no right to fixed income.

The own shares reserve of $0.1 million at 31 December 2022 (2021: $0.5 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans.

The number of shares held by the Employee Benefit Trust at 31 December 2022 was 805,501 (2021: 2,020,306).

Details of share awards outstanding under the Group's LTIP and Deferred Bonus Plans are set out in note 33.

Notes to the financial statements cont.

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$m	Retained profit US$m	Non-controlling interests US$m
At 1 January 2022	10.5	(0.5)	(105.7)	59.8	246.3	252.5	31.1
Dividends	–	–	–	–	–	(32.9)	(18.3)
Currency translation differences	–	–	(16.2)	–	–	–	(0.7)
Actuarial gains on employee benefits	–	–	–	–	–	59.8	–
Tax on actuarial gains	–	–	–	–	–	(1.4)	–
Application of IAS 29 (note 1)	–	–	–	–	–	5.0	–
Issue of ordinary shares	100.9	–	–	–	–	–	–
Purchase of own shares	–	(2.1)	–	–	–	–	–
Movement in own shares	–	2.5	–	–	–	(2.5)	–
Share based payments	–	–	–	–	–	4.6	–
Deferred tax on share schemes	–	–	–	–	–	0.3	–
Loss for the year	–	–	–	–	–	(14.7)	22.0
At 31 December 2022	111.4	0.1	(121.9)	59.8	246.3	270.7	34.1

Other reserves of $246.3 million in the above table relate to legacy non-distributable reserves, which arose during the period when the Group was part of the Guinness Peat Group.

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 2022 US$m	Year ended 31 December 2021 US$m	31 December 2022 US$m	31 December 2021 US$m
EMEA	0.7	0.1	1.4	0.9
Asia & Rest of World	21.3	19.6	32.7	30.2
	22.0	19.7	34.1	31.1

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 173 to 179.

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.

Notes to the financial statements cont.

28 Contingent liabilities and environmental matters cont.

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 allocation process concluded in December 2020. The EPA-appointed allocator determined that CC is in the lowest tier (Tier 5) of allocation parties, and is responsible for only a de micromis share of remedial costs.

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 addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's continued belief that it is a de micromis party.

In 2015, a provision totalling $15.8 million was recorded for remediation costs for the entire 17 miles of the LPR and the estimated associated legal and professional costs in defence of CC's position. The provision for remediation costs was based on CC's estimated share of de minimis costs for (a) EPA's selected remedy for the lower 8 miles of the LPR and (b) the remedy for the upper 9 miles proposed by the CPG, which was later substantively adopted by the EPA. This charge to the income statement was net of insurance reimbursements and was 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.

At 31 December 2022, the remaining provision, taking into account insurance reimbursement, was $9.2 million (2021: $11.2 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 process and OCC's lawsuit, 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.

In 2022, CC and other parties entered into a settlement with EPA in which the settling parties agreed to pay $150 million toward remediation of the full 17-mile LPR in exchange for a release for those matters addressed in the settlement. CC's share of the cash-out settlement is consistent with a de micromis share of total remedial costs for the full 17-mile LPR. EPA has indicated it will seek the balance of LPR remedial costs from OCC and a small number of other parties that EPA has determined were not eligible to participate in a cash-out settlement. These work parties (and not the cash-out parties) would be responsible for remedial costs over-runs. The settlement does not address claims for natural resource damages by federal natural resource trustees. The Group believes that CC's share, if any, of such costs would be de micromis.

In late 2022, the cash-out settlement for the full 17-mile LPR was lodged with the court by the Department of Justice (DOJ) on behalf of EPA. Court approval is necessary for the settlement to go into effect, and OCC has indicated that it will oppose such approval. The Group expects that DOJ and EPA will assert that the settlement is just and reasonable and that it should be approved by the court, and courts have generally deferred to EPA's judgment on such matters. However, it is nonetheless possible that the court may not approve the settlement. It is also possible that the court may approve the settlement but permit OCC's litigation against the settling parties to continue in whole or in part. Because of these continued uncertainties, the Group is maintaining its current provision for the LPR for the present time.

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 the EPA-appointed allocator correctly concluded that it has a de micromis share of the total remediation costs, and that OCC and other parties will be responsible for a significant share of the ultimate costs of remediation. As this matter evolves, the provision may be reduced if the settlement is approved by the court and if the court bars further litigation against CC and other settling parties. It is nonetheless still possible that additional provisions could be recorded and that such provisions could increase materially based on further decisions by the court, 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 2022, the Group had commitments of $5.6 million in respect of contracts placed for future capital expenditure (2021: $5.1 million).

Notes to the financial statements cont.

30 Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year ended 31 December	2022 US$m	2021* US$m
Operating profit	181.0	178.2
Depreciation of owned property, plant and equipment	26.5	27.3
Deprecation of right-of-use assets	19.4	19.4
Amortisation of intangible assets	12.6	6.0
Decrease/(increase) in inventories	43.6	(66.8)
Decrease/(increase) in debtors	10.4	(38.2)
(Decrease)/increase in creditors	(76.2)	91.5
Provisions and pension movements	(41.6)	(34.5)
Foreign exchange and other non-cash movements	8.8	13.0
Discontinued operations	(8.0)	(6.9)
Cash generated from operations	176.5	189.0

b) Interest paid

Year ended 31 December	2022 US$m	2021* US$m
Interest paid	(24.8)	(11.0)
Discontinued operations	(0.7)	(1.5)
	(25.5)	(12.5)

c) Taxation paid

Year ended 31 December	2022 US$m	2021* US$m
Overseas tax paid	(54.6)	(47.8)
Discontinued operations	–	(0.1)
	(54.6)	(47.9)

d) Investment income

Year ended 31 December	2022 US$m	2021 US$m
Dividends received from joint ventures	0.5	0.3

e) Capital expenditure and financial investment

Year ended 31 December	2022 US$m	2021* US$m
Purchase of property, plant and equipment and intangible assets	(33.8)	(30.5)
(Purchase)/sale of other equity investments	(0.1)	0.1
Disposal of property, plant and equipment	2.8	0.8
Discontinued operations	(0.5)	(0.7)
	(31.6)	(30.3)

f) Acquisitions and disposals of businesses

Year ended 31 December	2022 US$m	2021 US$m
Acquisition of businesses (note 31)	(271.2)	–
Disposal of business (note 32)	(17.0)	–
	(288.2)	–

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

g) Summary of net debt

Year ended 31 December	2022 US$m	2021 US$m
Cash and cash equivalents	172.4	107.2
Bank overdrafts	(14.7)	(16.4)
Net cash and cash equivalents	157.7	90.8
Borrowings (see note 23)	(552.1)	(237.9)
Net debt excluding lease liabilities	(394.4)	(147.1)
Lease liabilities (see note 15)	(105.4)	(99.0)
Total net debt	(499.8)	(246.1)

On 20 July 2022, the Group fully drew down on a new $240 million term loan acquisition facility to fund the purchase of Texon (see note 31). This facility was to mature in July 2024, and the Group had an option to extend this term by a further nine months to May 2025. In February 2023, the Group completed the refinancing of this acquisition facility via the US Private Placement (USPP) market with $250 million of notes. $150 million 5.26% Series A Senior Notes are due on 16 February 2028 and $100 million 5.37% Series B Senior Notes are due on 16 February 2030.

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 2022 for covenant purposes was $399.9 million (31 December 2021: $148.0 million).

Notes to the financial statements cont.

30 Notes to the consolidated cash flow statement cont.

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$m	Total financing activity liabilities US$m	Bank overdrafts US$m	Cash at bank and in hand US$m	Net debt US$m
At 1 January 2021	(230.4)	(2.3)	(66.0)	(298.7)	(19.8)	71.9	(246.6)
Financing cash flows	–	(8.4)	22.1	13.7	–	–	13.7
Other cash flows	–	–	–	–	3.1	37.9	41.0
Non-cash movements	2.9	(1.4)	(55.3)	(53.8)	–	–	(53.8)
Foreign exchange	–	1.7	0.2	1.9	0.3	(2.6)	(0.4)
At 31 December 2021	(227.5)	(10.4)	(99.0)	(336.9)	(16.4)	107.2	(246.1)
Financing cash flows	**–**	**(256.7)**	**18.1**	**(238.6)**	**–**	**–**	**(238.6)**
Other cash flows	**–**	**–**	**4.9**	**4.9**	**1.7**	**70.4**	**77.0**
Acquisition of subsidiaries (note 31)	**–**	**(62.5)**	**–**	**(62.5)**	**–**	**–**	**(62.5)**
Non-cash movements	**5.2**	**(1.0)**	**(36.0)**	**(31.8)**	**–**	**–**	**(31.8)**
Foreign exchange	**–**	**0.8**	**6.6**	**7.4**	**–**	**(5.2)**	**2.2**
At 31 December 2022	**(222.3)**	**(329.8)**	**(105.4)**	**(657.5)**	**(14.7)**	**172.4**	**(499.8)**

The non-cash movement during the year ended 31 December 2022 of $5.2 million (2021: $2.9 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 2022 of $36.0 million (2021: $55.3 million) within lease liabilities relates to the following: the unwind of lease liabilities of $4.9 million (2021: $5.2 million) and the impact of entering into new leases, disposals and modification of existing leases of $31.1 million (2021: $50.1 million).

Total interest paid during the year ended 31 December 2022 was $25.5 million (2021: $17.6 million), which primarily relates to the above Senior Notes, bank loans and overdrafts and lease liabilities. Total interest charged to the profit and loss account for the year ended 31 December 2022 for the above Senior Notes, bank loans and overdrafts and lease liabilities was $23.8 million (2021: $15.6 million).

Total net debt is presented in the consolidated statement of financial position as follows:

Year ended 31 December	2022 US$m	2021 US$m
Current assets:		
Cash and cash equivalents	**172.4**	107.2
Current liabilities:		
Bank overdrafts and other borrowings	**(16.7)**	(19.2)
Lease liabilities	**(19.0)**	(17.8)
Non-current liabilities:		
Borrowings	**(550.1)**	(235.1)
Lease liabilities	**(86.4)**	(81.2)
Total net debt	**(499.8)**	(246.1)

Notes to the financial statements cont.

31 Acquisitions

The Group completed two acquisitions during the year obtaining control of both Texon and Rhenoflex, leading manufacturers of structural footwear components supplying the world's leading footwear brands. Both have operations in Asia and Europe and are complementary additions to Coats' existing footwear business with opportunities to leverage existing footprints and combine expertise in the attractive athleisure footwear market.

- On 20 July 2022, the Group acquired the entire share capital of Torque Group International Fortune Limited ('Texon') for $211.0 million. On completion, the Group immediately settled all of Texon's external bank debt of $24.4 million such that total cash outflow was $235.4 million.
- On 23 August 2022, the Group also purchased the entire share capital of Rhenoflex GmbH ('Rhenoflex') for $81.5 million. On completion, the Group immediately settled all of Rhenoflex's external bank debt of $38.1 million such that the total cash outflow was $119.6 million.

The Texon transaction was funded through a new $240.0 million term loan acquisition facility and the Rhenoflex transaction was predominately financed through an equity raise of $109.8 million net of costs.

These acquisitions have been accounted for as business combinations using the acquisition method in accordance with IFRS 3 'Business Combinations.' For each acquisition, a provisional assessment of the fair values of identified assets acquired and liabilities assumed has been undertaken with assistance provided by external valuation specialists.

In the provisional accounting, adjustments are made to the book values of the net assets of the companies acquired to reflect their provisional fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included. As part of this exercise, accounting policies are aligned with those of the Group and as the acquisitions were made in the second half of the year and given their global footprint, the fair values presented below are provisional as these assessments will be completed within 12 months from each relevant acquisition date.

The provisional fair values of the identifiable assets and liabilities of Texon and Rhenoflex as at their respective acquisition dates were as follows:

	Provisional fair value recognised on acquisition of Texon US$m	Provisional fair value recognised on acquisition of Rhenoflex US$m	Provisional Total US$m
Assets			
Acquired intangible assets			
– Customer relationships	107.1	51.7	**158.8**
– Brands and trade names	26.7	14.2	**40.9**
– Technology	26.3	14.2	**40.5**
	160.1	80.1	**240.2**
Computer software	0.1	0.5	**0.6**
Property, plant and equipment	14.4	9.3	**23.7**
Right-of-use-assets	4.9	4.3	**9.2**
Investments in joint ventures	0.7	–	**0.7**
Deferred tax assets	2.6	0.7	**3.3**
Inventories	20.6	20.3	**40.9**
Trade and other receivables	26.0	13.8	**39.8**
Cash and cash equivalents	16.8	4.5	**21.3**
	246.2	133.5	**379.7**
Liabilities			
Trade and other payables	(28.8)	(12.7)	**(41.5)**
Deferred tax liabilities	(28.5)	(26.3)	**(54.8)**
Borrowings	(24.4)	(38.1)	**(62.5)**
Lease liabilities	(4.9)	(4.3)	**(9.2)**
Retirement benefit obligations	(7.6)	(2.7)	**(10.3)**
Provisions	**(5.3)**	**(2.1)**	(7.4)
	(99.5)	(86.2)	**(185.7)**
Total identifiable net assets acquired at fair value	146.7	47.3	**194.0**
Goodwill recognised on acquisition (provisional)	64.3	34.2	**98.5**
Purchase consideration paid	**211.0**	**81.5**	**292.5**

Notes to the financial statements cont.

31 Acquisitions cont.

The fair value assessed for intangible customer relationship assets was $107.1 million for Texon and $51.7 million for Rhenoflex. In both cases this will be amortised over a fifteen-year useful economic life. As fair value level one observable market prices are not available for these assets, management engaged external professional valuation advisors to assist in identifying and valuing these assets The excess earnings method was used to value these customer relationships which considers the use of other assets in the generation of projected cash flows to isolate the economic benefit generated by the relationships.

The fair value assessed for brands and trade names was $26.7 million for Texon and $14.2 million for Rhenoflex and for technology was $26.3 million for Texon and $14.2 million for Rhenoflex. The relief from royalty method was used to value both the technology and the trade names which will be amortised over a useful economic life of ten years. The relief from royalty method looks at the savings from owning the trade name and technology compared to paying royalties for their use based on comparable market royalty rates.

The net deferred tax position reflected adjustments related to the deferred tax impact of the fair value uplifts on acquired intangible assets and other fair value adjustments at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that were enacted or substantively enacted. Deferred tax liabilities recognised as a result of the acquisition of Texon and Rhenoflex total $54.8 million. The Group's total deferred tax liabilities at 31 December 2022 were $65.3 million (2021: $6.8 million).

Fair value adjustments were also made to uplift property, plant and equipment by a total of $3.5 million for Texon. Other adjustments were made to decrease pension obligations on an IAS 19 basis by $2.1 million and $0.7 million at the acquisition dates for Texon and Rhenoflex respectively. Due to their contractual dates, the fair value of receivables acquired approximated to the gross contractual amounts receivable. There was no material expected credit losses for either acquisition and these receivables have materiality been settled between the respective acquisition dates and the 31 December 2022 year-end date. There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3.

Provisional goodwill of $64.3 million for Texon and $34.2 million for Rhenoflex represents the premium attributable to purchasing separately established businesses with assembled workforces, opportunities for synergies and exploitation of the general technological capabilities and knowledge base of each company. Goodwill is not expected to be deductible for tax purposes.

Goodwill is not amortised but tested annually for impairment. For the purposes of annual impairment testing the combined provisional goodwill has initially been allocated to a new Structural Footwear Components cash generating unit. This initial allocation will be reviewed during 2023 following further integration of Structural Footwear Components with the pre-existing Coats footwear and thread business.

Provisional goodwill and intangible assets acquired for Texon and Rhenoflex totalled $338.7 million. From their respective acquisition dates to 31 December 2022, amortisation charges for acquired intangible assets amounted to $5.6 million for Texon and $2.1 million for Rhenoflex.

From their acquisition dates, the contribution to revenues in the year to 31 December 2022 was $57.2 million for Texon and $30.0 million for Rhenoflex. The contribution to operating profit excluding exceptional items and amortisation of acquired intangible assets in the year to 31 December 2022 was $5.8 million for Texon and $3.4 million for Rhenoflex in the year to 31 December 2022. The loss after tax in the year to 31 December 2022 (after exceptional items and amortisation of acquired intangible assets) was $1.9 million for Texon and a profit of $0.5 million for Rhenoflex.

If the acquisitions had taken effect at the beginning of the reporting period (1 January 2022), the Group's revenues for the year ended 31 December 2022 would have been $85.9 million higher for Texon and $60.0 million higher for Rhenoflex and the Group's profit after tax would have been $2.9 million higher for Texon and $3.1 million higher for Rhenoflex based on management accounts.

Transaction costs totalling $12.6 million relating to the acquisitions of Texon ($8.6 million) and Rhenoflex ($4.0 million) have been expensed and are included in the consolidated income statement (see note 4). Transaction costs of $11.5 million have been charged to administrative expenses and $1.1 million has been charged to finance costs relating to the $240.0 million Texon term loan acquisition facility. Transaction costs paid in the year ended 31 December 2022 relating to these acquisitions was $12.3 million and are included in cash flows absorbed in operating activities in the consolidated cash flow statement. In addition costs of $2.8 million were incurred in connection with the equity raise to finance the acquisition of Rhenoflex which have been charged to the share premium reserve.

The purchase consideration was paid in cash with the amounts included in the statement of consolidated cash flows as follows:

	Texon US$m	Rhenoflex US$m	Total US$m
Purchase consideration paid to previous owners	211.0	81.5	292.5
Cash and cash equivalents acquired	(16.8)	(4.5)	(21.3)
Acquisition of businesses – investing cash flows	**194.2**	**77.0**	**271.2**
External bank borrowings settled on completion – financing cash flows	24.4	38.1	62.5
Total cash out flow on respective acquisition dates	**218.6**	**115.1**	**333.7**

The repayment of external bank borrowings of Texon and Rhenoflex on the respective completion dates of the acquisitions is presented as financing cash flows.

The total cash outflow for the acquisitions of Texon and Rhenoflex in the year ended 31 December 2022 was $346.0 million (see note 37(e)) comprising the total cash outflow on the respective acquisition dates of $333.7 million plus transaction costs paid of $12.3 million.

Notes to the financial statements cont.

32 Discontinued operations

Sale of Brazil and Argentina

On 10 May 2022 the Group announced the agreement to sell its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The sale was completed on 26 May 2022, the date which control passed to the acquirer. Under the terms of the disposal, the Group paid $15.0 million to Reelpar S.A. to support restructuring of the business. During the five years following the completion date earn-out payments are payable to the Group in the event that certain operational cash flow targets are met by the Brazil and Argentina business. No earn-out payments have been recognised by the Group as at 31 December 2022.

a) Discontinued operations

The results of the discontinued operations are presented below:

Year Ended 31 December	2022 US$m	2021* US$m
Revenue	**26.3**	66.8
Cost of sales	**(22.6)**	(49.8)
Gross profit	**3.7**	17.0
Distribution costs	**(3.8)**	(10.2)
Administrative expenses	**(3.3)**	(5.6)
Operating (loss)/profit	**(3.4)**	1.2
Investment income	**–**	4.2
Finance costs	**(0.3)**	(0.4)
(Loss)/profit before taxation	**(3.7)**	5.0
Taxation	**–**	(1.3)
(Loss)/profit from discontinued operations for the year	**(3.7)**	3.7
Loss on disposal (note 32 (b))	**(68.9)**	–
Exchange loss transferred to income statement on disposal	**(15.0)**	–
Total (loss)/profit from discontinued operations	**(87.6)**	3.7

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Revenue reported above includes inter-company sales for the year ended 31 December 2022 of $1.6 million (2021: $3.6 million). External revenue of the Brazil and Argentina business for the year ended 31 December 2022 was $24.7 million (2021: $63.2 million).

Exceptional items – discontinued operations

Exceptional items credited/(charged) to (loss)/profit from discontinued operations are set out below:

Year Ended 31 December	2022 US$m	2021* US$m
Brazil indirect taxes:		
– Cost of sales	**–**	5.8
– Finance income	**–**	4.2
– Taxation	**–**	(1.1)
Loss on disposal (note 32(b))	**(68.9)**	–
Exchange loss transferred to income statement on disposal	**(15.0)**	–
Total exceptional items – discontinued operations	**(83.9)**	8.9

Brazil indirect taxes

In 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 were recognised as exceptional items in the results for the year ended 31 December 2021 of $5.8 million which was included in cost of sales and in addition exceptional interest income was recognised year ended 31 December 2021 of $4.2 million. The exceptional tax charge for the year ended 31 December 2021 was $1.1 million. These refunds dated back to 2003 and the estimated tax credit amounts were expected to be utilised over a period of approximately six years, once the business has received a favourable Court ruling.

(Loss)/earnings per ordinary share from discontinued operations

The (loss)/earnings per ordinary share from discontinued operations is as follows:

Year Ended 31 December	2022 Cents	2021* Cents
(Loss)/earnings per ordinary share from discontinued operations:		
Basic (loss)/earnings per ordinary share	**(5.78)**	0.26
Diluted (loss)/earnings per ordinary share	**(5.74)**	0.25

Notes to the financial statements cont.

32 Discontinued operations cont.

Cash flows from discontinued operations

The table below sets out the cash flows from discontinued operations:

Year Ended 31 December	2022 US$m	2021* US$m
Net cash outflow from operating activities	(8.7)	(8.5)
Net cash outflow from investing activities	(0.5)	(0.7)
Net cash flows from discontinued operations	**(9.2)**	(9.2)

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

b) Loss on disposal

The major classes of assets and liabilities disposed relating to the Brazil and Argentina business was as follows:

	US$m
Property, plant and equipment	10.8
Inventories	26.9
Trade and other receivables	35.7
Cash and cash equivalents	0.7
Total assets	**74.1**
Trade and other payables	(18.1)
Current income tax liabilities	(1.2)
Bank overdrafts	(2.5)
Retirement benefit obligations	(2.0)
Provisions	(0.9)
Total liabilities	**(24.7)**
Net assets disposed	**49.4**
Consideration paid	15.0
Disposal costs	4.5
Exceptional loss on disposal – discontinued operations	**68.9**

The consideration paid on the date of disposal was $15.0 million and net of cash and cash equivalents and bank overdrafts disposed was $13.2 million. Disposal costs of $3.8 million were paid in the year ended 31 December 2022 and as a result the cash outflow in the year ended 31 December 2022 on the sale of the Brazil and Argentina business was $17.0 million.

33 Related party transactions

Remuneration of key management personnel

The Group Executive Team and Non-Executive Directors are deemed to be the key management personnel of the Group. The remuneration of the Group Executive Team and Non-Executive Directors, 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 85 to 97 in the audited part of the Directors' Remuneration Report.

Year ended 31 December	2022 US$m	2021 US$m
Short-term employee benefits	10.3	10.4
Share based payments	2.1	1.6
	12.4	12.0

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	
	2022 US$m	2021 US$m	2022 US$m	2021 US$m
Joint ventures	1.4	2.7	63.2	61.1

Amounts owing by/(to) joint ventures at the year end are disclosed in notes 19 and 21. All transactions with joint ventures are at an arm's length and payment terms are consistent with normal trading terms with third parties.

Notes to the financial statements cont.

34 Derivatives and other financial instruments

The Group's main financial instruments comprise:

Financial assets:

- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial liabilities:

- trade, other payables and certain provisions that arise directly from the Group's operations;
- bank borrowings and overdrafts; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial assets

The Group's financial assets are summarised below:

Year ended 31 December	2022 US$m	2021 US$m
Financial assets carried at amortised cost:		
Cash and cash equivalents	**172.4**	107.2
Trade receivables (note 19)	**236.4**	241.5
Amounts due from joint ventures (note 19)	**–**	0.1
Other receivables (note 19), net of non-financial assets $29.8 million (2021: $29.9 million)	**18.7**	34.0
	427.5	382.8
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 20)	**1.6**	5.5
	1.6	5.5
Other financial assets carried at fair value through the statement of comprehensive income:		
Other investments (note 16)	**5.9**	6.0
	5.9	6.0
Total financial assets	**435.0**	394.3

Financial liabilities

The Group's financial liabilities are summarised below:

Year ended 31 December	2022 US$m	2021 US$m
Financial liabilities carried at amortised cost:		
Trade payables (note 21)	**151.3**	208.5
Amounts owed to joint ventures (note 21)	**15.0**	16.3
Other financial liabilities	**74.7**	116.3
Provisions (note 25)	**0.9**	2.1
Lease liabilities (note 15)	**105.4**	99.0
Borrowings (note 23)	**566.8**	254.3
	914.1	696.5
Financial liabilities carried at fair value through the income statement:		
Derivative financial instruments (note 22)	**9.0**	0.9
Total financial liabilities	**923.1**	697.4

Other financial liabilities include other payables, other than taxation, contract liabilities, employee entitlements and other statutory liabilities.

Notes to the financial statements cont.

34 Derivatives and other financial instruments cont.

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	2022 Book value US$m	2022 Fair value US$m	2021 Book value US$m	2021 Fair value US$m
Primary financial instruments:				
Cash and cash equivalents	**172.4**	**172.4**	107.2	107.2
Trade receivables	**236.4**	**236.4**	241.5	241.5
Amounts due from joint ventures	**–**	**–**	0.1	0.1
Other receivables	**18.7**	**18.7**	34.0	34.0
Other investments	**5.9**	**5.9**	6.0	6.0
Trade payables	**(151.3)**	**(151.3)**	(208.5)	(208.5)
Amounts owed to joint ventures	**(15.0)**	**(15.0)**	(16.3)	(16.3)
Other financial liabilities and provisions	**(75.6)**	**(75.6)**	(118.4)	(118.4)
Borrowings	**(566.8)**	**(566.8)**	(254.3)	(254.3)
Derivative financial instruments:				
Forward foreign currency contracts	**(4.3)**	**(4.3)**	2.7	2.7
Interest rate swaps	**(3.1)**	**(3.1)**	1.9	1.9
Net financial liabilities	**(382.7)**	**(382.7)**	(204.1)	(204.1)

Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than 12 months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Fair value measurements recognised in the statement of financial position

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not observable market data (unobservable inputs).

Financial assets measured at fair value

Year ended 31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2022				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**1.6**	**–**	**1.6**	**–**
Derivatives designated as effective hedging instruments				
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	**5.9**	**0.9**	**–**	**5.0**
	7.5	**0.9**	**1.6**	**5.0**
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

Notes to the financial statements cont.

34 Derivatives and other financial instruments cont.

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
2022				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(5.9)**	**–**	**(5.9)**	**–**
Derivatives designated as effective hedging instruments	**(3.1)**	**–**	**(3.1)**	**–**
	(9.0)	**–**	**(9.0)**	**–**
2021				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(0.9)	–	(0.9)	–
	(0.9)	–	(0.9)	–

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.

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 161 to 165 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 2022, 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 $90.0 million had been drawn down at year end, a $240.0 million term loan acquisition facility 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 2022 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 2022 was $3.1 million (see note 22) 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.

Notes to the financial statements cont.

34 Derivatives and other financial instruments cont.

A reasonably possible change of one per cent in market interest rates would reduce profit before tax by approximately $5.0 million (2021: $2.5 million), and would reduce shareholders' funds by approximately $5.0 million (2021: $2.5 million). If interest rates fluctuate by a different rate, the aforementioned approximate impact can be linearly interpolated.

Trade and other receivables and trade and other payables are excluded from the following disclosure (other than the currency disclosures) as there is limited interest rate risk.

Capital risk management

The Group manages its capital so as to ensure that the Company and the Group will be able to continue as a going concern.

The Group's capital structure comprises cash and cash equivalents and borrowings (see Summary of net debt on page 153), and share capital and reserves attributable to the equity shareholders of the Company.

Currency exposure

The table below shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation.

	Net foreign currency financial assets/(liabilities)						
Functional currency 2022	**Sterling US$m**	**US dollars US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**	**Other US$m**	**Total US$m**
Sterling	–	(0.3)	1.9	–	–	0.2	1.8
United States dollars	(8.4)	–	(6.6)	0.5	–	7.5	(7.0)
Euros	–	5.1	–	–	–	–	5.1
Indian Rupees	–	(6.0)	(0.1)	–	–	–	(6.1)
Brazilian Reals	–	–	–	–	–	–	–
Other currencies	(0.2)	14.3	7.7	–	–	1.3	23.1
	(8.6)	13.1	2.9	0.5	–	9.0	16.9

	Net foreign currency financial assets/(liabilities)						
Functional currency 2021	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)

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:

2022	**Sterling US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**
Increase in US dollar exchange rate	10%	10%	10%	10%
(Decrease)/increase in profit before tax	(1.1)	(1.1)	0.6	–
Increase/(decrease) in shareholders' funds	21.6	(0.8)	5.0	–

2021	Sterling US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m
Increase in US dollar exchange rate	10%	10%	10%	10%
(Decrease)/increase in profit before tax	(2.4)	(1.0)	0.1	0.2
Increase/(decrease) in shareholders' funds	21.6	(1.4)	4.9	0.1

Notes to the financial statements cont.

34 Derivatives and other financial instruments cont.

Currency profile of financial assets

The currency profile of the Group's financial assets was as follows:

	2022					2021				
31 December	Investments US$m	Cash and cash equivalents US$m	Trade and other receivables US$m	Derivative financial instruments US$m	Total US$m	Investments US$m	Cash and cash equivalents US$m	Trade and other receivables US$m	Derivative financial instruments US$m	Total US$m
Currency:										
Sterling	**–**	**1.7**	**6.2**	**10.7**	**18.6**	–	0.4	4.7	66.0	71.1
United States dollars	**5.0**	**97.1**	**114.3**	**(26.7)**	**189.7**	5.0	55.1	127.2	(99.7)	87.6
Euros	**0.1**	**8.6**	**42.1**	**(3.9)**	**46.9**	0.1	2.5	22.7	(14.9)	10.4
Indian Rupees	**0.8**	**18.9**	**26.3**	**(0.5)**	**45.5**	0.9	9.2	22.3	12.5	44.9
Brazilian Reals	**–**	**–**	**–**	**–**	**–**	–	2.2	22.9	–	25.1
Other currencies	**–**	**46.1**	**66.2**	**22.0**	**134.3**	–	37.8	75.8	41.6	155.2
Total financial assets	**5.9**	**172.4**	**255.1**	**1.6**	**435.0**	6.0	107.2	275.6	5.5	394.3

The investments included above comprise unlisted investments in shares and bonds.

Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the Group's financial liabilities was as follows:

	2022						2021					
31 December	Floating rate US$m	Fixed rate US$m	Interest free US$m	Lease liabilities US$m	Derivative financial instruments US$m	Total US$m	Floating rate US$m	Fixed rate US$m	Interest free US$m	Lease liabilities US$m	Derivative financial instruments US$m	Total US$m
Currency:												
Sterling	**0.3**	**–**	**4.1**	**3.8**	**(44.3)**	**(36.1)**	0.5	–	13.8	4.5	(42.9)	(24.1)
United States dollars	**400.5**	**160.0**	**99.5**	**28.5**	**41.3**	**729.8**	79.6	160.0	143.6	17.1	42.8	443.1
Euros	**4.0**	**–**	**26.9**	**12.2**	**22.7**	**65.8**	9.4	–	17.5	9.5	10.3	46.7
Indian Rupees	**–**	**–**	**37.4**	**6.6**	**(2.4)**	**41.6**	–	–	52.0	10.3	–	62.3
Brazilian Reals	**–**	**–**	**–**	**–**	**–**	**–**	–	–	10.4	–	1.2	11.6
Other currencies	**–**	**2.0**	**74.0**	**54.3**	**(8.3)**	**122.0**	2.0	2.8	105.9	57.6	(10.5)	157.8
Total financial liabilities	**404.8**	**162.0**	**241.9**	**105.4**	**9.0**	**923.1**	91.5	162.8	343.2	99.0	0.9	697.4

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:

	2022			2021		
	Fixed rate financial liabilities		Financial liabilities on which no interest is paid	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Year ended 31 December	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Currency:						
Sterling	**–**	**–**	**18**	–	–	18
United States dollars	**4.00**	**46**	**–**	4.00	58	–
Other currencies	**25.56**	**6**	**–**	23.95	9	–
Weighted average	**4.27**	**45**	**18**	4.34	57	18

Currency profile of foreign exchange derivatives

	Assets		Liabilities	
Year ended 31 December	2022 US$m	2021 US$m	2022 US$m	2021 US$m
Currency:				
Sterling	**55.0**	109.6	**–**	(0.7)
United States dollars	**39.2**	35.2	**(104.1)**	(179.6)
Euros	**–**	–	**(26.6)**	(25.2)
Indian Rupee	**3.7**	12.5	**(1.8)**	–
Brazilian Real	**–**	–	**–**	(1.2)
Other currencies	**43.3**	64.2	**(13.0)**	(12.1)
	141.2	221.5	**(145.5)**	(218.8)

Market price risk

The Group has equity and bond investments at 31 December 2022 of $5.9 million (2021: $6.0 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.

Notes to the financial statements cont.

34 Derivatives and other financial instruments cont.

Year ended 31 December	2022 US$m	2021 US$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	2022 US$m	2021 US$m
Expiring between one and two years	–	–
Expiring between two and five years	270.0	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	2022 US$m	2021 US$m
In one year or less, or on demand	419.6	366.2
In more than one year but not more than two years	5.0	12.6
In more than two years but not more than five years	2.9	4.0
In more than five years	5.9	6.0
	433.4	388.8

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	2022 US$m	2021 US$m
In one year or less, or on demand	282.3	380.1
In more than one year but not more than two years	383.2	22.3
In more than two years but not more than five years	233.5	176.3
In more than five years	48.1	142.6
	947.1	721.3

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

Maturity of undiscounted financial derivatives

The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows, was as follows:

	Assets		Liabilities	
Year ended 31 December	2022 US$m	2021 US$m	2022 US$m	2021 US$m
In one year or less, or on demand	126.6	182.2	(131.3)	(178.5)
In more than one year but not more than two years	14.5	24.8	(17.7)	(24.3)
In more than two years but not more than five years	–	16.6	–	(16.0)
	141.1	223.6	(149.0)	(218.8)

Notes to the financial statements cont.

34 Derivatives and other financial instruments cont.

Credit risk

Year ended 31 December	2022 US$m	2021 US$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**172.4**	107.2
Derivative financial instruments	**1.6**	5.5
Trade receivables (net of impairment provision)	**236.4**	241.5
Amounts due from joint ventures	**–**	0.1
Other receivables	**18.7**	34.0
	429.1	388.3
Financial assets considered not to have exposure to credit risk:		
Other investments	**5.9**	6.0
Total financial assets	**435.0**	394.3
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**21.0**	17.5
Trade receivables between 1 and 2 months over permitted credit period	**5.5**	5.1
Trade receivables between 2 and 3 months over permitted credit period	**2.2**	1.7
Trade receivables between 3 and 6 months over permitted credit period	**2.0**	1.3
Trade receivables in excess of 6 months over permitted credit period	**1.5**	1.7
Total trade receivables (net of impairment provision) in excess of permitted credit period	**32.2**	27.3
Trade receivables within permitted credit period	**204.2**	214.2
Total net trade receivables	**236.4**	241.5
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**0.6**	0.8
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**	0.3
Trade receivables between 3 and 6 months over permitted credit period	**0.7**	0.7
Trade receivables in excess of 6 months over permitted credit period	**5.8**	6.9
Total impairment provision	**7.6**	8.9

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.

Hedges

During 2022, 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 2022, the fair value of such instruments was a net liability of $7.4 million (2021: net asset of $4.6 million).

Interest rate swap fair value hedges outstanding at 31 December are expected to (decrease)/increase the income statement in the following periods:

Year ended 31 December	2022 US$m	2021 US$m
Within one year	**(1.6)**	0.9
Within one to two years	**(1.5)**	0.5
Within two to five years	**–**	0.5
	(3.1)	1.9

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

Notes to the financial statements cont.

35 Share-based payments

The total cost recognised in the consolidated Income Statement in respect of equity settled share-based payment plans was as follows:

Year ended 31 December	2022 US$m	2021 US$m
Long Term Incentive Plan (LTIP)	**3.7**	3.9
Deferred bonuses	**0.9**	0.5
	4.6	4.4

The average share price for the year ended 31 December 2022 was 66.0p (2021: 65.8p).

LTIP

Under the terms of the Coats Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options). The vesting of awards is subject to the satisfaction of a three-year performance condition, which is determined by the Remuneration Committee at the time of grant. The performance condition includes both market and non-market based measures.

Details of options outstanding under equity settled awards:

	2022 Options	2021 Options
Outstanding at 1 January	**42,003,141**	40,532,920
Granted during the year	**12,221,204**	15,492,212
Vested during the year	**(6,467,817)**	(7,136,430)
Lapsed during the year	**(4,422,917)**	(2,689,364)
Exercised during the year	**(2,438,040)**	(4,196,197)
Outstanding at 31 December	**40,895,571**	42,003,141
Exercisable at 31 December	**3,692,768**	4,917,104

The options outstanding at 31 December 2022 had a weighted average remaining contractual life of 7.5 years (2021: 7.7 years).

The fair value of the market-based component of these awards was calculated using the Monte Carlo simulation method to reflect the likelihood of the market-based Total Shareholder Return (TSR) performance condition, which attach to 20% (2021: 20%) of the award, being met, using the following assumptions:

	2022	2021
Vesting period	**3 years**	3 years
Share price at valuation date	**66.0p**	59.2p
Exercise price	**Nil**	Nil
Risk free rate	**1.04%**	0.13%
Expected dividend yield	**0%**	0%
Expected volatility	**39.93%**	38.26%
Fair value per share	**48.4p**	16.8p

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 2022 had a weighted average remaining contractual life of 7.9 years (2021: 7.6 years).

36 Post balance sheet events

On 20 February 2023 the Group announced completion of a $250 million issue of US Private Placement notes (see note 30 (g) for further details).

37 Alternative performance measures

This Annual Report contains both statutory measures and alternative performance measures which, in management's view, provide valuable additional information for users of the financial statements in understanding the Group's performance.

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.

Notes to the financial statements cont.

37 Alternative performance measures cont.

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') 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 167 to 169.

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 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	2022 US$m	2021* US$m	% Growth
Revenue from continuing operations	**1,583.8**	1,446.7	9%
Constant currency adjustment	**–**	(85.3)	
Revenue on a CER basis	**1,583.8**	1,361.4	16%
Revenue from acquisitions[1]	**(87.2)**	–	
Organic revenue on a CER basis	**1,496.6**	1,361.4	10%

Year ended 31 December	2022 US$m	2021* US$m	% Growth
Operating profit from continuing operations[2]	**181.0**	178.2	2%
Exceptional and acquisition related items (note 4)	**53.9**	19.5	
Adjusted operating profit from continuing operations	**234.9**	197.7	19%
Constant currency adjustment	**–**	(12.3)	
Adjusted operating profit on a CER basis	**234.9**	185.4	27%
Operating loss from acquisitions[1]	**(9.2)**	–	
Organic adjusted operating profit on a CER basis	**225.7**	185.4	22%

1. Revenue and operating profit from acquisitions relates to the acquisitions of Texon and Rhenoflex (see note 31).
2. Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

b) Adjusted EBITDA

Adjusted EBITDA is presented as an alternative performance measure to show the 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	2022 US$m	2021* US$m
Profit before taxation from continuing operations	**151.3**	158.0
Share of profit of joint ventures	**(1.1)**	(1.2)
Finance income (note 6)	**(2.6)**	(0.4)
Finance costs (note 7)	**33.4**	21.8
Operating profit from continuing operations[1]	**181.0**	178.2
Exceptional and acquisition related items (note 4)	**53.9**	19.5
Adjusted operating profit from continuing operations	**234.9**	197.7
Depreciation of owned property, plant and equipment	**26.5**	27.3
Amortisation of intangible assets	**1.8**	2.7
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**263.2**	227.7
Depreciation of right-of-use assets	**19.4**	19.4
Adjusted EBITDA	**282.6**	247.1

1. Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

Notes to the financial statements cont.

37 Alternative performance measures cont.

Net debt including lease liabilities under IFRS 16 at 31 December 2022 was $499.8 million (2021: $246.1 million).

This gives a leverage ratio of net debt including lease liabilities to adjusted EBITDA at 31 December 2022 of 1.8 (2021: 1.0).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2022 was $394.4 million (2021: $147.1 million).

This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2022 of 1.5 (2021: 0.6).

The Group's pro forma leverage on a pre-IFRS 16 basis at 31 December 2022 is 1.4 after adjusting EBITDA to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the reporting period (1 January 2022)

For the definition and calculation of net debt excluding lease liabilities see note 30 (g).

c) Adjusted effective tax rate

The adjusted 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 adjusted 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 adjusted 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 effective tax rate.

Year ended 31 December	2022 US$m	2021* US$m
Profit before taxation from continuing operations	**151.3**	158.0
Exceptional and acquisition related items (note 4)	**55.0**	19.5
Net interest on pension scheme assets and liabilities	**0.5**	4.1
Adjusted profit before taxation from continuing operations	**206.8**	181.6
Taxation charge from continuing operations	**56.4**	53.1
Tax credit in respect of exceptional and acquisition related items	**3.7**	0.2
Tax credit in respect of net interest on pension scheme assets and liabilities	**0.5**	0.5
Adjusted tax charge from continuing operations	**60.6**	53.8
Adjusted effective tax rate	**29%**	30%

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 progression of the benefits generated for shareholders.

Year ended 31 December	2022 US$m	2021* US$m
Profit from continuing operations	**94.9**	104.9
Non-controlling interests	**(22.0)**	(19.7)
Profit from continuing operations attributable to equity shareholders	**72.9**	85.2
Exceptional and acquisition related items net of non-controlling interests (note 4)	**54.7**	19.5
Tax credit in respect of exceptional and acquisition related items	**(3.7)**	(0.2)
Adjusted profit from continuing operations	**123.9**	104.5
Weighted average number of Ordinary Shares	**1,515,999,205**	1,457,076,765
Adjusted earnings per share (cents)	**8.17**	7.17
Adjusted earnings per share (growth %)	**14%**	

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2022 is 1,515,999,205 (2021: 1,457,076,765), 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 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.

Adjusted free cash flow measures the Group's cash generation that is available to service shareholder dividends, pension obligations and acquisitions.

Notes to the financial statements cont.

37 Alternative performance measures cont.

Year ended 31 December	2022 US$m	2021* US$m
Change in net debt resulting from cash flows (free cash flow)	(247.1)	32.6
Acquisition of businesses (note 31)	346.0	–
Disposal of business (note 32)	17.0	–
Net cash outflow from discontinued operations	9.2	9.2
Payments to UK pension scheme	42.7	42.4
Net cash flows in respect of other exceptional and acquisition related items	22.5	12.2
Issue of ordinary shares (note 26)	(109.8)	–
Purchase of own shares by Employee Benefit Trust	2.1	–
Dividends paid to equity shareholders	33.0	27.4
Tax inflow in respect of adjusted cash flow items	(1.4)	–
Adjusted free cash flow	**114.2**	**123.8**

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

f) Adjusted return on capital employed

Adjusted return on capital employed (ROCE) is defined as operating profit before exceptional and acquisition related items adjusted for the full year impact of acquisitions divided by period end capital employed as set out below. Adjusted ROCE measures the ability of the Group's assets to deliver returns.

Year ended 31 December	2022 US$m	2021* US$m
Operating profit from continuing operations before exceptional and acquisition related items adjusted for full year impact of acquisitions[1]	250.9	197.7
Non-current assets:		
Acquired intangible assets	366.6	36.8
Property, plant and equipment	256.3	235.1
Right-of-use assets	96.5	91.6
Trade and other receivables	20.2	20.4
Current assets:		
Inventories	211.4	229.6
Trade and other receivables	286.3	279.8
Current liabilities:		
Trade and other payables	(278.4)	(328.9)
Lease liabilities	(19.0)	(17.8)
Non-current liabilities		
Trade and other payables	(26.3)	(24.2)
Lease liabilities	(86.4)	(81.2)
Capital employed	**827.2**	**441.2**
Adjusted ROCE	**30%**	**45%**

The amounts shown above for non-current assets, current assets, current liabilities and non-current liabilities at 31 December 2021 exclude the discontinued Brazil and Argentina business.

1. Operating profit from continuing operations before exceptional and acquisition related items for the year ended 31 December 2022 has been adjusted to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the reporting period (1 January 2022). Including full year pro forma results, rather than the actual consolidated results of these acquired businesses, better reflects the return from the capital position at the period end. Therefore this provides reliable and more relevant information on the financial performance of the Group to a user of the financial statements. Refer to note 4 for details of exceptional and acquisition related items.

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1). Amounts for non-current assets, current assets, current liabilities and non-current liabilities at 31 December 2021 exclude the discontinued Brazil and Argentina business.

Company balance sheet

31 December	Notes	2022 US$m	2021 US$m
Fixed assets:			
Investments	4	**1,354.0**	1,244.2
Current assets:			
Trade and other receivables		**0.2**	–
Cash at bank and in hand		**0.6**	0.8
		0.8	0.8
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		**(1.7)**	(68.7)
Trade and other payables		**(0.5)**	(0.6)
Net current liabilities		**(1.4)**	(68.5)
Net assets		**1,352.6**	1,175.7
Capital and reserves:			
Share capital	5	**99.0**	90.1
Share premium account		**111.4**	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	**(0.1)**	(0.5)
Profit and loss account		**1,049.9**	983.2
Shareholders' funds		**1,352.6**	1,175.7

The Company reported a profit for the financial year ended 31 December 2022 of $100.0 million (2021: $28.2 million).

Rajiv Sharma
Group Chief Executive

Jackie Callaway
Chief Financial Officer

Approved by the Board 1 March 2023

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 2021	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
Profit and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**100.0**	**100.0**
Issue of ordinary shares	**8.9**	**100.9**	**–**	**–**	**–**	**–**	**–**	**109.8**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(32.9)**	**(32.9)**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**(2.1)**	**–**	**(2.1)**
Movement in own shares	**–**	**–**	**–**	**–**	**–**	**2.5**	**(0.4)**	**2.1**
31 December 2022	**99.0**	**111.4**	**14.1**	**18.5**	**59.8**	**(0.1)**	**1,049.9**	**1,352.6**

Company cash flow statement

Year ended 31 December	2022 US$m	2021 US$m
Net cash flows from operating activities:		
Operating profit	**93.5**	27.7
Decrease in creditors	**–**	(1.4)
Increase in debtors	**(0.2)**	–
Net cash flows from operating activities	**93.3**	26.3
Net cash flows from investing activities:		
Investments in subsidiary undertakings	**(109.8)**	–
Net cash flows from investing activities:	**(109.8)**	–
Net cash flows from financing activities:		
Issue of ordinary shares	**109.8**	–
Purchase of own shares	**(2.1)**	–
Repayment of loans from subsidiary undertakings	**(60.5)**	–
Proceeds from sale of own shares	**2.1**	1.3
Dividends paid to equity shareholders	**(33.0)**	(27.4)
Net cash flows from financing activities	**16.3**	(26.1)
Net (decrease)/ increase in cash and cash equivalents	**(0.2)**	0.2
Cash at bank and in hand at the beginning of the year	**0.8**	0.6
Cash at bank and in hand at the end of the year	**0.6**	0.8

Notes to the company financial statements

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a) General information and basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) as issued by the Financial Reporting Council.

Functional currency

The functional currency of Coats Group plc continued to be United States dollars (USD) during the year ended 31 December 2022.

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.

Notes to the company financial statements cont.

1 Accounting policies cont.

Equity-settled

The Group operates an equity-settled Long Term Incentive Plan for executives and senior management, settlement is in the form of Coats Group plc shares. Awards under this plan are subject to both market-based and non-market-based vesting criteria.

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. As the Long Term Incentive Plan relates to employees of a subsidiary, when there is no recharge of the cost, the fair value is charged to Investments on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non market-based performance conditions and forfeitures. The corresponding credit is to shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust (EBT) over the vesting period. Coats Group plc is the sponsoring employer of the EBT and its activities are considered an extension of the Company's activities. Therefore the shares purchased by the EBT are included as a deduction from shareholders' funds and other assets and liabilities of the EBT are recognised as assets and liabilities of Coats Group plc.

f) Taxation

Provision is made for taxation assessable on the profit or loss for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred taxation is measured on a non-discounted basis.

g) Dividends

Dividends proposed are recognised in the period in which they are formally approved for payment.

h) Critical accounting judgements and key sources of estimation uncertainty

Carrying value of investments:

The carrying values of investments are assessed annually for indicators of impairment. If an impairment review is required judgement is involved in calculating the recoverable amount. No indicators of impairment were identified during the year ended 31 December 2022.

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 $100.0 million (2021: $28.2 million profit). Fees paid for the audit of the Company's annual accounts are disclosed on page 131.

Details of directors' remuneration are set out on pages 85 to 97 within the Remuneration Report and form part of these financial statements.

3 Dividends

Dividends amounting to $32.9 million in respect of the year ended 31 December 2022 were payable to Coats Group plc shareholders during the year (2021: $27.6 million). Details of the proposed final dividend for the year ended 31 December 2022 are set out in note 12 of the consolidated financial statements.

4 Investments

	Investments in subsidiary undertakings US$m
At 1 January 2022	**1,244.2**
Additions (see note 26)	**109.8**
At 31 December 2022	**1,354.0**

The carrying value of investments at 1 January 2021 was $1,244.2 million.

5 Share capital and reserves

There are 1,597,810,385 Ordinary Shares of 5p issued and fully paid at 31 December 2022 (2021: 1,452,570,385).

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 2022 of $0.1 million (2021: $0.5 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 31 December 2022 was 805,501 (2021: 2,020,306).

As at 31 December 2022 the Company had distributable profits of $287.3 million (2021: $220.1 million).

6 Related party transactions

Amounts due from and to other Group companies are disclosed on the face of the Balance Sheet on page 170.

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	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	B. M. Estates Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Contractors' Aggregates Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	GPG (UK) Holdings Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	GPG March 2004 Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	S G Warburg Group Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary

Subsidiaries:

Indirect holdings of the Company

Country of Incorporation	Company name	Registered office address	Share class
Australia	Coats Australian Pty Ltd	Unit 2, 56 Keys Road, Moorabbin VIC 3189, Australia	AUD0.54 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
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%)
Bulgaria	Coats Bulgaria Eood	Tharigradsko shouse bld 7th Km, Sofia 1748, Bulgaria	BGL50.00 Ordinary
Cambodia	Coats Threads (Cambodia) Company Limited	Phnom Penh Tower, No. 445, Room No. 1, 7th Floor, Monivong Blvd corner street 232, 1, Boeng Proluet, Prampir Meakkakra, Cambodia	KHR4,000 Ordinary
Canada	Coats Canada Inc	10 Roybridge Gate Blvd, Vaughan ON L4H 3M8, Canada	Common (no par value)
Canada	Staveley Services Canada Inc	44 Chipman Hill, Suite 1000, Saint John NB E2L 2A0, Canada	CAD Common, CAD Class A Pref 1, CAD Class A Pref 2
Chile	Coats Cadena Ltda	Enrique Gomez Correa 5750, 3er piso, Oficina No.4, Macul, Santiago, Chile	US$1.00 Ordinary
Chile	The Central Agency Limited – Chile	Enrique Gomez Correa 5750, 3er piso, Oficina No.4, Macul, Santiago, Chile	US$1.00 Ordinary
China	Coats Opti Shenzhen Limited	Phase two of high-tech park), B6/B15 of Coats Industrial Park, Fengtang Avenue, Tangwei Community, Fuyong Street, Bao'An District, Shenzhen, China	US$1.00 Ordinary (90%)
China	Coats Shenzhen Limited	Coats Industrial Park, Fengtang Avenue, Zhancheng Community, Fuhai Street, Baoan District, Shenzhen, China 518103	US$1.00 Ordinary (90%)
China	Donguan Rhenoflex New Materials Co. Ltd	Building 5, No. 77 Shilong Road, Guancheng Street, Dongguan, Guangdong Province, China	US$500,000.00 Ordinary

Group structure cont.

Country of Incorporation	Company name	Registered office address	Share class
China	Donguan Rhenoflex Shoe Materials Co. Ltd	Room 1510, Business Building, Gosun Science and Technology Park, Nancheng Street, Dongguan, China	US$100,000.00 Ordinary
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	Jiangyin Rhenoflex Waterproof Material Co.Ltd	No. 58 Dong Sheng Road, Hi-Tech Park, Jiangyin Economic Development Zone, China	US$1,500,000.00 Ordinary
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%)
China	Texon Dongguan Non Woven Ltd	No. 17 Weiheng Road, Niushan Foreign Economics Industrial Park, Dongcheng Street, Dongguan City, China	US$1,420,000.00 Ordinary
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
France	Rhenoflex France SAS	3 rue du Moulin, 49450 St. Macaire en Mauges, France	€188,401.00 Ordinary
France	Texon France SAS	Zone Industrielle de la Bergerie, 10 rue Gustave Eiffel, 49280 La Seguiniere, Maine-et-Loire, Pays de la Loire, France	€1.22104 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
France	UT France	Zone Industrielle de la Bergerie, 10 rue Gustave Eiffel, 49280 La Seguiniere, Maine-et-Loire, Pays de la Loire, France	€1.51178 Ordinary
Germany	Coats GmbH	1 Suedwieke 180, 26817 Rhauderfehn, Germany	€12,000,000.00 Ordinary
Germany	Coats Opti Germany GmbH	1 Suedwieke 180, 26817 Rhauderfehn, Germany	€1,000,000.00 Ordinary
Germany	Coats Thread Germany GmbH	Adolf-Kolping-Straße 2 – 6, Donaueschingen, 78166, Germany	€11,704,000.00 Ordinary
Germany	Rhenoflex GmbH	Giulinistraße 2, 67065 Ludwigshafen, Germany	€25,000.00 Ordinary
Germany	Schwanenwolle Tittel & Krueger AG i. L	RHS, Stadtstrasse 29, 79104 Freiburg, Germany	DEM1.00 Ordinary
Germany	Texon Components GmbH	Roigheimer Str., 69-72, Mockmuhl, 74219, Germany	€126,000.00 Ordinary
Germany	Texon Mockmuhl GmbH	Roigheimer Str., 69-72, Mockmuhl, 74219, Germany	€27,041,999.59 Ordinary
Guatemala	Centraltex de Guatemala, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Coats de Guatemala, S.A.	13-78 Zona 10, Edif. Intercontinental Plaza Torre Citigroup Nivel 17, Oficina 1702, Ciudad, Guatemala	GTQ1.00 Ordinary
Guatemala	Crafts Central America, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Distribuidora Coats de Guatemala, Sociedad Anomina	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ1.00 Ordinary
Guatemala	Guatemala Thread Company Sociedad Anonima	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ10.00 Ordinary
Honduras	Coats Honduras, S.A.	Edificio #13 Zona Libre Inhdelva, 800 mts. Carretera a la Jutosa, Choloma, Cortes, Honduras	HNL100.00 Ordinary
Hong Kong	China Thread Development Company Limited	Unit 1-4, 10/F, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats (China) Limited	Unit 1-4, 10/F, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong	HKD10.00 Ordinary

Group structure cont.

Country of Incorporation	Company name	Registered office address	Share class
Hong Kong	Coats China Holdings Limited	Unit 1-4, 10/F, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats Hong Kong Limited	Unit 1-4, 10/F, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong	HKD10.00 Ordinary (90%)
Hong Kong	Coats Opti Hong Kong Limited	Unit 1-4, 10/F, The Broadway, 54-62 Lockhart Road, Wanchai, Hong Kong	HKD1.00 Ordinary
Hong Kong	Coats Thread HK Limited	Unit 1-4, 10/F, The Broadway, 54-62 Lockhart Road, Wanchai, 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
Hong Kong	Rhenoflex Hong Kong Ltd	17/F 700 Nathan Road, Monkok, Hong Kong	HKD1.00 Ordinary
Hong Kong	Texon International (Asia) Limited	Room 1–4, 10th Floor, The Broadway, 54-62 Lockhart Road, Wanchai, 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
India	Texon (India) Private Limited	S. No. 376, Thirumudivakkam Main Road, Behind Amarprakash Heritage Apartments, Thirumudivakkam, Chennai, Tamil Nadu, 600044, India	INR100.00 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
Italy	Rhenoflex Italy S.r.l	Via Borgogna 2, 20122 Milan, Italy	€10.000.00 Ordinary
Italy	Texon Italia S.r.l.	Via Felice, Casati 20, Milan, 20124, Italy	€1.00 Ordinary
Madagascar	Coats (Madagascar) International1	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	MGF100,000.00 Ordinary
Madagascar	Coats (Madagascar) S.AR.L (EPZ)2	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) Ltd3	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 Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXP1.00 Ordinary-A, MXP1.00 Ordinary-B
Morocco	Coats Maroc	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Morocco	Mercerie Industrielle de Casablanca	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Netherlands	Coats Industrial Europe Holdings B.V.	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	€1.00 Ordinary
Netherlands	Coats Industrial Thread Holdings B.V	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	€1.00 Ordinary
Netherlands	Coats Northern Holdings B.V.	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	€1.00 Ordinary
Netherlands	Coats South America Holdings B.V.	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	€1.00 Ordinary

1 Sold on 31st January 2023
2 Sold on 31st January 2023
3 Sold on 31st January 2023

Group structure cont.

Country of Incorporation	Company name	Registered office address	Share class
Netherlands	Coats South Asia Holdings B.V.	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	€1.00 Ordinary
Netherlands	Coats Southern Holdings B.V.	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	€1.00 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	Nowe Sady 2, 94-104 Lodz, Poland	PLN1,000.00 Ordinary
Portugal	Coats – Comercio de Linhas, Fechos e Acessorios, Para a Industria SA	Praca Duque de Saldhana, 1, Edif. Atrium Saldanha, Piso 7, Lisbon, 1050-094, Portugal	€1.00 Ordinary Bearer Shares
Portugal	Companhia de Linha Coats & Clark S.A.	Praca Duque de Saldhana, 1, Edif. Atrium Saldanha, Piso 7, Lisbon, 1050-094, 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	12 Marina View, #11-01, Asia Square Tower 2, 018961, Singapore	SGD1.00 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
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.	Avinguda de Montcau, No 5, Parcela A del VGP Llica d'Amunt, (Nave E2 y E3), Llica de Munt, Barcelona, 08186, Spain	€6.02 Ordinary
Sri Lanka	Coats Thread Exports (Private) Limited	No. 479, Level–08, HNB Towers, T.B. Jayah Mawatha, Colombo, 10, Sri Lanka	LKR100.00 Ordinary (99%)
Sri Lanka	Coats Thread Lanka (Private) Limited	No. 479, Level–08, HNB Towers, T.B. Jayah Mawatha, Colombo, 10, Sri Lanka	LKR10.00 Ordinary (99%)
Sweden	Coats Industrial Scandinavia AB	Stationsvagen 2, SE-516 31 Dalsjofors, Sweden	SEK1,000.00 Bearer
Switzerland	Coats Stroppel AG	c/o Haussmann Treuhand AG, Seefeldstrasse 45, 8008 Zurich, Switzerland	CHF2,500.00
Thailand	Coats Threads (Thailand) Ltd	39/60 Moo 2 Tambol Bangkrachaw, Amphur Muang, Samutsakorn Province 74000, Thailand	THB1,000.00 Ordinary
Tunisia	Coats Industrial Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Tunisia	Coats Trading Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Turkey	Coats (Turkiye) Iplik Sanayii AS	BALAT OSB MAH 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	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary

Group structure cont.

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Anfield 1 Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT United Kingdom	£1.00 Ordinary
United Kingdom	Anfield 2 Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT United Kingdom	£1.00 Ordinary, £1.00 Deferred
United Kingdom	Barbour Threads Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£10.00 Ordinary
United Kingdom	Brown Shipley Holdings Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Brunel Pension Trustees Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Cardpad Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats (UK) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Digital Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Finance Co. Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Group Finance Company Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.33 Ordinary
United Kingdom	Coats Holding Company (No. 1) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.125 Ordinary
United Kingdom	Coats Holding Company (No. 2) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.25 Ordinary
United Kingdom	Coats Holdings Ltd	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Brands Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, 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	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Property Management Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (BDA) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (CV Nominees) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (VV) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.01 Ordinary, £0.075 Deferred
United Kingdom	Coats Trading (UK) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Coats UK Pension Scheme Trustees Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Corah Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.25 Ordinary, £1.00 4.2% Cumulative Preference
United Kingdom	D. Byford & Co Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.20 Ordinary, £1.00 Preference
United Kingdom	Embergrange	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Fast React Systems (Bangladesh) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Fast React Systems Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	GPG Securities Trading Ltd	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Griffin SA Ltd	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	GSD (Corporate) Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	GSD Holdings Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary-A, £1.00 Ordinary-B

Group structure cont.

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Hicking Pentecost Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.50 Ordinary
United Kingdom	I.P. Clarke & Co. Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, 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	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Needle Industries Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Patons & Baldwins Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Patons Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary, £1.00 7% Preference
United Kingdom	Simpson, Wright & Lowe, Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Sir Richard Arkwright & Co. Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	SIRBS Pension Trustee Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley 2005 No 3 Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley Industries Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley Services Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Texon (Newco 2) Ltd	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, United Kingdom	£1.00 Ordinary
United Kingdom	Texon International Group Limited	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, United Kingdom	£0.0001 A Ordinary, £0.0001 B Ordinary, £0.00001 Deferred Ordinary

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Texon Management Ltd	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, United Kingdom	£1.00 Ordinary
United Kingdom	Texon Non Woven Ltd	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, United Kingdom	£1.00 Ordinary
United Kingdom	Texon Overseas	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, 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	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Thomas Burnley & Sons, Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£10.00 Ordinary
United Kingdom	Tootal Group Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£0.25 Ordinary, £1.00 3.5 % Cumulative Preference
United Kingdom	Tootal Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	£1.00 Ordinary
United Kingdom	Torque Group International Fortune Limited	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, United Kingdom	£0.01 A Ordinary, £0.01 B Ordinary, £0.01 C Ordinary
United Kingdom	Torque Group International Wealth Limited	Skelton Industrial Estate, Skelton, Saltburn-By-The-Sea, Cleveland, TS12 2LH, England, 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

Group structure cont.

Country of Incorporation	Company name	Registered office address	Share class
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	Rhenoflex Americas Corp.	Corporation Trust Center, 1209 Orange Street, Wilmington, DE, United States	US$0.01 Ordinary
United States	Staveley Inc	The Corporation Trust Co., 1209 Orange Street, Wilmington, DE 19801, USA.	US$0.01 Ordinary
United States	Texon Materials, Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, DE, United States	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
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%)
Vietnam	Rheno Shoe-Components (VN) Co Ltd	Plant 57, 1-7 street, Long Thanh Industrial Park, Tam An Commune, Long Thanh District, Dong Nai Province, Viet Nam	VND17,581,335,900 Ordinary
Vietnam	Texon Manufacturing Vietnam Company Limited	Plant No. 02 and Factory No. 03, An Phuoc Industrial Zoe, An Phuoc Ward, Long Thanh District, Dong Nai Province, Viet Nam	VND33,446,917,552 Charter Capital

Joint Ventures

Country of Incorporation	Company Name	Registered Office address	Share class
China	Guangying Spinning Company Limited	2 Yuan Cun Xi Jie Guangzhou, 510655, China	US$1.00 Ordinary (50%)
China	Huizhou Uniqa Shoes Component Manufacturing Co., Ltd	Shop 30, 1st Floor, Building 5, Cunhu Modern Huafu, West of Jiaoxiao Section, Shiwan Avenue (formerly Yongshi Avenue), Shiwan Town, Huizhou City, Boluo County, China	Ordinary (100%)[4]
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%)
Italy	AKCA Technologies S.r.l	Via Felice, Casati 20, Milan, 20124, Italy	€1.00 Ordinary (60%)
Italy	Levante S.r.l.	Via Traversa, Di Parezzana 14, 55012, Capannori (LU), Carraia, Italy	€1.00 Ordinary (40%)
Mexico	Rhenoflex Shoe-Mat S.R.L. de CV	Sigma 308, Fracc. Industrial Delta, CP 37545 León, Guanajuato, Mexico	MXP500,000.00 Ordinary (50%)
Spain	Texogan, S.L.	C/ Fresser 21-23, 2P, Pol. Ind., Pla D' En Coll Montacada i Reixac, Barcelona, 08110, Spain	€1.00 Ordinary (50%)
United Kingdom	Coats VTT Limited	The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom	US$0.01 Ordinary (50%)
Uruguay	Texogan S.A.	Camino Bajo la Petisa 5040, Local 1, 12800 Montevideo, Uruguay	US$1.00 Ordinary (65%)[5]

4 % owned by Levante S.r.L
5 % owned by Texogan S.L.

Five-year summary

For the year ended 31 December	2018 US$m	2019[3] US$m	2020 US$m	2021 US$m	**2022 US$m**
Continuing operations (before exceptional and acquisition related items)[1]:					
Revenue	1,340.9	1,326.2	1,115.1	1,446.7	**1,583.8**
Cost of sales	(848.0)	(850.7)	(769.4)	(979.3)	**(1,087.1)**
Gross profit	492.9	475.5	345.7	467.4	**496.7**
Operating costs	(295.3)	(273.8)	(232.1)	(269.7)	**(261.8)**
Operating profit	197.6	201.7	113.6	197.7	**234.9**
Share of profits from joint ventures	0.1	1.1	0.6	1.2	**1.1**
Finance income	1.7	1.7	0.7	0.4	**2.6**
Finance costs	(26.1)	(29.6)	(25.5)	(21.8)	**(32.3)**
Profit before taxation	173.3	174.9	89.4	177.5	**206.3**
Taxation	(53.8)	(50.5)	(35.2)	(53.3)	**(60.1)**
Profit from continuing operations	119.5	124.4	54.2	124.2	**146.2**
Adjusted earnings per share (cents)	6.87	6.97	2.42	7.17	**8.17**
Dividend per share (cents)	1.66	0.55[4]	1.30	2.11	**2.43**
Adjusted free cash flow ($m)	96.2	106.8	28.0	123.8	**114.2**
Adjusted return on capital employed (%)	42.6%	42.3%	22.2%	44.8%	**30.3%[2]**

Notes:

1. The Income Statement amounts for 2018-2021 has been restated following the disposal of the Brazil and Argentina business. Adjusted earnings per share, adjusted free cash flow and adjusted return on capital employed for 2018-2020 are as previously reported.
2. Operating profit from continuing operations before exceptional and acquisition related items for the year ended 31 December 2022 has been adjusted in the adjusted return on capital employed calculation to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the reporting period (1 January 2022).
3. The Group adopted IFRS 16 'Leases' from 1 January 2019 using the modified retrospective approach and therefore results for 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
The Pavilions
Bridgwater Road
Bristol BS13 8FD
Tel: 020 8210 5000
coats.com

Incorporated and registered in England No. 103548

Registered office:
The Pavilions
Bridgwater Road
Bristol BS13 8FD

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 BS13 8FD Tel: 0370 707 1022 Facsimile: 0370 703 6143	The Pavilions Bridgwater Road Bristol BS13 8FD

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Coats Group plc
The Pavilions
Bridgwater Road
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Incorporated and registered
in England No. 103548