31 July 2017

Coats Group plc

2017 Half Year results

Coats Group plc ('Coats' or the 'Company'), the world's leading industrial thread manufacturer, today announces its unaudited results for the six months ended 30 June 2017.

Highlights

- Revenue up 5% on a CER basis to $740 million (4% reported). Strong growth of 7% in Industrial Division across both Apparel and Footwear (5%), and Performance Materials (18%).
- Adjusted operating profit up 14% on a CER basis (12% reported) with Group revenue growth further underpinned by margin increase across both Industrial (50bps) and Crafts (260bps).
- Adjusted EPS up 38% to 3.06c (reported EPS of 2.89c) with higher operating profit, reduction in effective tax rate, and mark-to-market foreign exchange gains. 19% underlying EPS growth.
- Strong adjusted free cash flow for the last twelve months of $109 million (June 2016: $84 million). As expected, second half capital expenditure to increase to $30-40 million ($50-60 million full year spend).
- Return on capital employed increased 400bps to 34% (2016: 30%) mainly as a result of higher profitability.
- Good operational progress on the identified focus areas of simplification, innovation and enhancing our digital capabilities.
- Settlement concluded with all three UK pensions schemes and Pension Regulator investigations now ceased.
- The Board has declared an interim dividend of 0.44 US cents per share payable in November 2017, representing 7% growth (2016 pro-forma 0.41 US cents).

***Denotes a KPI**		H1 2017	H1 2016 [2]	Change	CER change [1]	Organic change [1]
Revenue	reported	$740m	$713m	4%	5%	***3%**
Operating profit	reported [1]	$86m	$78m	11%		
	adjusted [1]	$89m	$80m	12%	14%	***10%**
Basic earnings per share	reported	2.89c	1.90c	52%		
	adjusted [1]	3.06c	2.22c	***38%**		
Free cash flow (last twelve months)	adjusted [1]	***$109m**	$84m	30%		
Return on capital employed (ROCE) [1,3]		***34%**	30%	400bps		
Dividend per share (interim)		0.44c	-	7%		

1 Non-statutory measures (Alternative Performance Measures) are reconciled to the nearest corresponding statutory measure in note 14. Organic growth measures the change after adjusting for acquisitions. Constant exchange rate (CER) figures are 2016 restated at 2017 exchange rates.

2 Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 13)

3 With effect from 1 January 2017 capital employed used in the definition of ROCE includes intangible assets in relation to recent acquisitions. ROCE for prior periods have been restated consistent with the current definition.

Commenting on Coats Half Year 2017 results Rajiv Sharma, Group Chief Executive, said:

‘Coats continued its strong start to the year, with CER sales growth of 5% and adjusted operating profit growth of 14%, of which the primary contributor was the Industrial Division. We have continued to increase our market share in the Apparel and Footwear segment despite continued mixed demand from clothing retailers through maintaining our customer-led approach to innovation, digital solutions and corporate social responsibility. We continue to leverage our global footprint and customer base in our Performance Materials business, develop new product solutions for our customers, and see a good contribution from our Gotex business which was acquired in 2016. In Crafts, the North American market remains weak despite recent stabilisation. Our strong cash generation allows us to service our various stakeholder capital demands, whilst allowing for increased investment in our existing asset base which, as previously indicated, is scheduled in the second half of the year.’

‘We will look to build on the strong first half of the year, and expect to deliver performance in line with management’s expectations for the full year. This is expected to be achieved through our initiatives to deliver market share gains and productivity improvements, maintaining a tight control of our cost base, whilst investing in our growth opportunities.’

Conference call

Coats Management will discuss this report in a webcast / conference call with analysts and investors at 0900 BST today (31 July 2017). The webcast can be accessed via www.coats.com/investors/hy17. The conference call can be accessed by dialling +44 (0)20 3059 8125 and using participant code ‘Coats’. The webcast will also be made available in archive form on www.coats.com.

Enquiry details

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This announcement contains inside information for the purposes of the Market Abuse Regulation.

About Coats Group plc

Coats is the world’s leading industrial thread manufacturer and a major player in the Americas textile crafts market. At home in some 60 countries, Coats employs 19,000 people across six continents. Revenues in 2016 were US$1.5bn. Coats’ pioneering history and innovative culture ensure the company continues leading the way around the world, providing complementary and value added products and services to the apparel and footwear industries; applying innovative techniques to develop high technology Performance Materials threads and yarns in areas such as automotive composites and fibre optics; and extending the crafts offer into new markets and online. Headquartered in the UK, Coats is a FTSE 250 listed company on the London Stock Exchange. To find out more about Coats visit www.coats.com.

Summary

In the following commentary all references to revenue are on a CER basis and all references to operating profit are on an adjusted CER basis, unless otherwise stated (Alternative Performance Measures are reconciled to the nearest corresponding statutory measure in note 14).

	H1 2017 Reported $m	H1 2016 reported [5] $m	Reported inc/(dec) %	H1 2016 CER [1] $m	CER [1] inc/(dec) %	Organic [4] inc/(dec) %
Revenue [2]						
Industrial	642	609	5%	600	7%	5%
Crafts	98	104	(6)%	106	(8)%	(8)%
Total	**740**	**713**	**4%**	**706**	**5%**	**3%**
Adjusted operating profit [2, 3]						
Industrial	88	81	8%	79	11%	7%
Crafts	5	3	79%	3	79%	79%
UK pension admin	(4)	(4)		(4)		
Group	**89**	**80**	**12%**	**78**	**14%**	**10%**
Adjusted operating margin						
Industrial	**13.6%**	13.3%	40bps	13.2%	**50bps**	**30bps**
Crafts	**5.3%**	2.8%	250bps	2.7%	**260bps**	**260bps**
Group	**12.1%**	11.1%	90bps	11.1%	**100bps**	**80bps**

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

Coats generated revenues of $740 million in the first half of 2017, representing 5% CER underlying growth on 2016 ($706 million). Industrial sales grew at 7%, driven by our share gains in Apparel and Footwear, product innovation, geographic expansion in Performance Materials, and the contribution from bolt-on acquisitions. Organic sales growth in the Industrial Division of 5% was achieved despite ongoing mixed demand from clothing retailers. Our growth remained strong in Europe and Asia, and we saw a return to growth in the US consumer durables markets (which includes, for example, outdoor recreational products). Crafts sales declined 8%, largely due to the business disruption caused by the tornado strike at the main Crafts distribution centre in Albany, Georgia, USA on 22 January 2017.

Group adjusted operating profit increased 14% to $89 million (2016: $78 million). Industrial adjusted operating profit grew 11% and margins were up 50 basis points (bps) to 13.6% due to volume growth, productivity and procurement improvements, and continued cost control which more than offset continued pricing pressure and structural inflation in the markets in which we operate. Excluding acquisitions, Industrial adjusted operating profit grew 7%.

As noted above, the 8% decline in Crafts Americas revenues was primarily due to the business disruption from the tornado strike in Albany in January 2017. Despite this decline in revenues, Crafts Americas operating margins increased significantly in the period to 5.3% (2016: 2.7%). This was partially due to the profit insurance cover from the tornado, in addition to continued cost savings, and a reduction in one-off items on the prior period.

The 4% growth in Group sales on a reported basis, which was lower than the 5% CER growth, reflects the stronger US dollar, primarily against the Turkish Lira, Mexican Peso, Egyptian Pound, and Chinese Yuan compared to the first six months in 2016. A number of key currencies have marginally strengthened against the

US dollar since 31 December 2016 (for example Mexican Peso, Indian Rupee and Brazilian Real) however there still remains a net headwind on reported results when compared to CER growth.

Financial summary

Adjusted earnings per share ('EPS') for the first 6 months increased 38% to 3.06 cents (2016: 2.22 cents). This growth was driven by higher adjusted operating profits (14% CER growth), a reduction in tax rate (1% reduction in underlying rate), a $2 million reduction in the pension finance charge (albeit largely offset by the related decrease in interest income on reduced parent group cash), and foreign exchange gains of $1 million (2016: $4 million losses), primarily relating to mark-to-market (MTM) adjustments. Excluding the year-on-year impact of the foreign exchange gains / losses, underlying EPS growth was 19%. The Company generated a reported attributable profit from continuing operations of $40 million compared to $29 million in 2016, primarily due to the reasons set out above.

There was an adjusted free cash inflow of $21 million in the first half of 2017 which reflects the intra-year working capital cycle of the business (H1 2016: $11 million outflow), albeit improved from 2016 due to increased profitability and a lower net working capital outflow. On a last twelve months' basis, Coats generated a free cash inflow of $109 million to June 2017 (last twelve months to June 2016: $84 million), the increase driven by higher profitability and improvements to days sales and days payable outstanding. Capital expenditure is anticipated to increase to c.1.5x depreciation for the full year, with c.$30-40 million second half capital expenditure spend (H1 capital expenditure $20 million).

The reduction in net cash from $78 million at the end of 2016 to a net debt position at 30 June 2017 of $261 million primarily reflects the upfront deficit recovery payments made into the three UK defined benefit pension schemes following settlement with the Trustees of those schemes (see below for further detail).

Return on capital employed increased to 34%, from 30% at 30 June 2016, predominantly due to higher operating profits.

UK Pensions Regulator investigations

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

As a result of the settlements reached with the three schemes, the total cash Recovery Plan contributions in 2017, including estimated administration expenses and levies, are expected to be £290 million ($365 million). This comprises £270 million ($340 million) upfront payments (which have all been paid in H1) and £20 million ($25 million) annual deficit contributions, including estimated administration expenses and levies. These cash payments continue to be excluded from the Group's adjusted Free Cash Flow.

Operational progress

On 1 January 2017, Rajiv Sharma, previously CEO Industrial Division, took over as Group Chief Executive. Key focus areas for driving the next phase of growth at Coats relate to simplification, innovation and further development of digital capabilities, all of which are a development of the existing strategy. This enables Coats to deliver according to its customers' expectations for their partners to become more responsive and agile businesses with an increased emphasis on speed, quality, value and corporate responsibility.

We have made good progress in these focus areas in the period, and senior recruits have already been hired in a number of strategic areas such as Composites Innovation, Technology Solutions, and A&F Marketing. Notable developments include:

- Simplification: merging of the previously separate Digital and Technology teams, and the consolidation of previous Management Board, Industrial and Crafts Leadership Teams into a single body; the Group Executive Team. In addition, to drive operational synergies in Latin America the operations of the Industrial and Crafts businesses are being rationalised.
- Innovation: creation of a Global Innovation Forum which aims to build a culture of innovation across all segments of the business that will enable us to stay at the forefront of the industry, meet the evolving needs of our customers and further differentiate us from our competitors.
- Digital: creation of a Global Data Science team which aims to identify and understand global trends in order to provide actionable insights and solutions across the Group. In addition, a review of technology applications has occurred during H1 with the majority of local technology applications now turned off in order to drive a consistent approach to technology use around the business.

Dividend

Coats has a track record of delivering good levels of free cash through profitable sales growth, delivering self-help initiatives and investing in organic growth opportunities. The Board aims to use this free cash flow to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. Over time, and as underlying earnings and cash flows increase, the Board intends to pursue a progressive dividend policy.

The Board has declared an ordinary interim dividend per share of 0.44c (2016: nil), to be paid on 17 November (payment date) to shareholders on the register on 27 October (record date), with an ex-date of 26 October. The implied pro-forma interim dividend for 2016 was 0.41c (Full Year 2016 pro-forma dividend 1.25c) and therefore the proposed interim dividend for 2017 reflects 7% growth. However, as a result of the UK defined benefit pension scheme investigations which had not been concluded at this time in 2016, the Group was not in a position to pay an interim dividend this time last year.

The proposed full year dividend will be announced in February 2018 alongside the Full Year 2017 results.

Outlook

We will look to build on the strong first half of the year, and expect to deliver performance in line with management's expectations for the full year. This is expected to be achieved through our initiatives to deliver market share gains and productivity improvements, maintaining tight control of our cost base, whilst investing in our growth opportunities.

We will also continue to focus on cash flow generation, which will allow for an anticipated c.$30-40 million spend on capital expenditure in the second half of 2017.

Operating Review

In the following commentary all references to revenue are on a CER basis and all references to operating profit are on an adjusted CER basis, unless otherwise stated

Industrial

	H1 2017 Reported	H1 2016 Reported	Reported inc/(dec)	H1 2016 CER [1]	CER [1] inc/(dec)	Organic [6] inc/(dec)
	$m	$m	%	$m	%	%
Revenue [2]						
By business						
Apparel and Footwear [3]	507	493	**3%**	485	5%	4%
Performance Materials [5]	135	116	**16%**	114	18%	9%
Total	**642**	**609**	**5%**	**600**	**7%**	**5%**
By region						
Asia	373	357	4%	357	4%	4%
Americas	130	124	5%	125	3%	3%
EMEA	140	128	9%	117	19%	8%
Total	**642**	**609**	**5%**	**600**	**7%**	**5%**
Segment profit [2,4]	**88**	**81**	**8%**	**79**	**11%**	**7%**
Segment margin [2,4]	**13.6%**	**13.3%**	**40bps**	**13.2%**	**50bps**	**30bps**

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

Revenue in Apparel and Footwear (A&F) grew 5% in the first six months of the year on a CER basis (3% reported). In a pricing environment that remained challenging, sales growth was driven by our market share gains as the mixed demand from clothing retailers and manufacturers continued. Coats' ability to continue to take market share was assisted by several factors including deepening its relationships with retailers and brand owners through its global accounts programme, and with manufacturers, through the increasing adoption of digital services. Two years after roll out, Coats' eCommerce platform is now live in 28 countries, used by over 15,000 customers (manufacturers) and accounts for 74% of our total thread orders. It has also enabled a reduction in back office headcount. In addition, market share gains were realised through the launch of innovative new products, for example knitted footwear uppers for key sportswear brands, and we are actively working on individual innovation projects with around 25 separate global brands. We have also commenced development work on a 100% recycled premium core spun thread, with pilot trials due to be completed in H2 2017.

Performance Materials revenue grew 18% in the period on a CER basis (16% reported), including the contribution from Gotex (acquired in June 2016). Organic growth of 9% was underpinned by double digit growth in Asia and EMEA, along with an anticipated return to growth in the US consumer durables market. Emerging markets continued to deliver good sales growth through geographic expansion of existing products, such as personal protective equipment and automotive products, and the leveraging of Coats' global customer base. The business also continued to grow sales in new, innovative products, for example the Synergex carbon commingling technology that optimally combines high strength materials with a lighter weight low cost fibre.

By region, revenue in Asia grew by 4%, with demand remaining solid in key A&F markets. In the Americas there was a return to growth in the period (3%) following the anticipated improvement in the US consumer durables market and strong performance in certain key Latin America markets. Sales in EMEA rose 19% (8% organic growth) which was a continuation of a strong performance in 2016, double digit growth in certain key A&F markets and strong performance in Performance Materials.

Industrial operating profit increased 11% to $88 million (2016: $79 million) and margins increased 50bps on a CER basis to 13.6%. This reflected good volume growth driving a positive operational gearing impact, ongoing productivity savings, non-raw material procurement improvements and close control of costs. These factors more than offset the challenging pricing environment, rising raw material input prices during the period (declining in the same period in 2016) and structural wage and energy inflation that the Group faces across the many countries in which it operates.

Crafts

	H1 2017 Reported	H1 2016 Reported[1]	Reported inc/(dec)	H1 2016 CER [1,2]	CER [2] inc/(dec)
	$m	$m	%	$m	%
Revenue					
By business					
Handknittings	47	49	**(3)%**	49	(4)%
Needlecrafts [3]	51	55	**(8)%**	57	(11)%
Total	**98**	**104**	**(6)%**	**106**	**(8)%**
By region					
North America	63	73	**(14)%**	73	(14)%
Latin America	35	31	**15%**	33	6%
Total	**98**	**104**	**(6)%**	**106**	**(8)%**
Segment profit [4]	**5**	**3**	**79%**	**3**	**79%**
Segment margin [4]	**5.3%**	**2.8%**	**250bps**	**2.7%**	**260bps**

1 *Restated to exclude the results of UK Crafts*
2 *2016 figures at 2017 exchange rates.*
3 *Includes other textile craft products such as consumer sewings and lifestyle fabrics.*
4 *On an adjusted basis which excludes exceptional and acquisition related items.*

Crafts sales declined 8% on a CER basis (6% reported decline), largely due to the business disruption caused by the tornado strike at the main Crafts distribution centre in Albany, Georgia, USA on 22 January 2017. The estimated adverse sales impact from the Albany tornado was $10 million, however the impact of lost profits and incremental costs of re-establishing operations in Albany are expected to be covered by the Group's insurance cover. Following the softness seen in late 2015 and throughout the majority of 2016, the US handknitting market has started to stabilise but remains weak. Revenues in Latin America grew strongly by 6% on a CER basis (15% reported), with good performance in key handknitting markets.

Operating margins in the Crafts Division improved significantly to 5.3% (2016: 2.7%) due partially to the insurance cover from the tornado, in addition to continued cost savings, and a reduction in one-off items that were seen in the prior period. The division has continued to make good progress in the areas of online offerings and new product launches in the period.

Financial review

Adjusted EPS for the first six months increased 38% to 3.06 cents (2016: 2.22 cents). This was driven by the higher operating profit, improvements in the underlying tax rate, a lower pension finance charge (largely offset by decrease in interest income on reduced parent group cash), and MTM foreign exchange gains (2016: foreign exchange losses). Excluding the year-on-year impact of the MTM foreign exchange gains/losses, underlying EPS growth was 19%. Reported EPS of 2.89 cents compares to 2.11 cents in 2016 (for continuing operations).

Non-operating results

Net finance costs in the period were $11.2 million, significantly down from $18.2 million in 2016. There was a reduction in interest on borrowings from $7.2 million in 2016 to $6.7 million partly due to fixed interest rate swaps coming to an end. However, the key drivers of the reduction in net finance costs in the period was due to $1 million foreign exchange gains mainly in relation to MTM adjustments (2016: $4 million losses), and a $2 million reduction in the IAS19 pension finance charge following the injection of parent group cash into the three UK defined benefit schemes which reduced the net IAS19 liabilities accordingly, although the latter was largely offset by reduced interest income on the lower parent group cash balance.

The taxation charge for the first six months of 2017 was $27.2 million (2016: $22.7 million) resulting in a reported tax rate of 36% (2016: 38%). Excluding exceptional and acquisition related items, and the impact of IAS19 finance charges, the underlying effective rate on pre-tax profits reduced by 100bps to 33% (2016 full year: 34%). This was driven by a reduction in unrelieved losses, together with a favourable change in profit mix for the period.

Profit attributable to minority interests was $8.2 million (2016: $8.2 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 and discontinued items were $2.7 million in the first six months of 2017. These are related to the amortisation of intangible assets acquired in the recent acquisitions, and contingent consideration. In 2016 net exceptional and acquisition related items before taxation and discontinued items totalled $1.5 million.

There are no further significant developments in relation to the Lower Passaic River ("LPR") to report. See note 11 for further details.

Investment

Capital expenditure for the first six months of the year, in addition to ongoing maintenance requirements, related to new product development, process improvements, capacity expansion, health and safety, and environmental spend. The latter, which includes building effluent treatment plants, helps to ensure that Coats maintains its strong corporate responsibility credentials in the industry. Total capital spend for the first six months of the year amounted to $20 million (2016: $18 million) and was 1.0x times depreciation and amortisation.

As previously indicated, in order to support our future growth strategy and reinforce our strong environmental compliance credentials we have made the decision to increase our capital expenditure in 2017 to around 1.5 times depreciation for the full year. This spend is expected to be weighted towards the second half of the year with a spend of c.$30-40 million in H2.

Cash flow

In the first half of 2017 there was an adjusted free cash inflow of $21 million, which was an improvement on 2016 (outflow $11 million) due to increased profitability and a lower net working capital outflow in the period. The low inflow in the first half reflects Coats' normal free cash flow cycle, whereby the second half cash inflow significantly exceeds that in the first half.

Adjusted EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) for the half was $109 million (H1 2016: $100 million). Net working capital as a percentage of sales reduced to 13% (H1

2016: 15%) driven by improvements in days sales and days purchases outstanding. Interest paid was $6 million, a $1 million reduction on H1 2016, partly as a result of fixed rates swaps coming to an end. Tax paid was $28 million, a $3 million reduction from H1 2016, where higher profitability in the first half of 2017 was offset by a reduction in payments of withholding taxes on remittance of overseas profits which were higher in the same period of 2016. On a non-adjusted basis, there was a free cash outflow of $345 million, compared to $134 million in H1 2016. The increase was primarily related to $353 million of payments into the three UK defined benefit pension schemes (H1 2016: $65 million) following settlement with their respective trustees (including $340 million of upfront payments out of parent group cash), and was offset by no acquisitions in the period (H1 2016: $35 million).

A key metric for the Company is adjusted free cash flow on a last twelve months' basis. For the twelve months to 30 June 2017, Coats generated $109 million. This was ahead of the $78 million generated for the full year 2016 and the $84 million for the twelve months to 30 June 2016 driven by the higher profitability, and improvements in days sales and days purchases outstanding. Capital expenditure is expected to increase to c.1.5x depreciation for the full year, with c.$30-40 million second half capital expenditure spend (H1 capital expenditure $20 million). This measure is before annual pension recovery payments, acquisitions and dividends, and excludes exceptional items such as tPR investigations.

Balance sheet

The Company had a net debt position of $261 million at 30 June 2017 (31 December 2016: net cash $78 million). At 31 December 2016 the net cash position of $78 million included parent group cash of $343 million and operating business net debt of $265 million. Following the settlement of the three UK defined benefit pension schemes the period end parent group cash has now reduced to $2 million, following $340 million up-front payments into those three schemes, with the remaining amount held for the residual expenses of the pension investigations.

The Coats operating business had a net debt position of $263 million at the end of H1 2017. This was significantly below 30 June 2016 ($337 million) primarily due to the adjusted free cash flow in the last twelve months ($109 million), offset by on-going pension deficit recovery payments now paid out of the operating business net debt following settlement ($19 million) and shareholder dividends ($11 million). An important metric for the operating business is the leverage ratio of net debt (excluding parent group cash) to EBITDA. Net debt at 30 June 2017 was 1.3 times EBITDA of the last twelve months (1.7 times at 30 June 2016).

Pensions and other post-employment benefits

The net obligation for the Group's retirement and other post-employment defined benefit liabilities, on an IAS19 financial reporting basis, was $236 million as at 30 June 2017, down from $627 million at 31 December 2016.

The deficits in the Group's UK defined benefit schemes, namely the UK Coats Plan, and Brunel and Staveley schemes, decreased to $179 million (£138 million) from the position at 31 December 2016 ($576 million, £467 million). The decrease in liabilities in the period of $397 million primarily consisted of UK upfront settlement payment of $340 million (£270 million), actuarial gains of $69 million (mainly related to asset outperformance) offset by foreign exchange losses on Sterling liabilities of $18 million.

IAS19 deficit	**30 Jun 2017**	**31 Dec 2016**	**30 Jun 2017**	**31 Dec 2016**
	$m	$m	£m	£m
Coats Plan	141	467	108	378
Brunel	29	64	23	52
Staveley	9	45	7	37
UK defined benefit schemes	**179**	576	**138**	467
Other Coats net employee benefit obligations	57	51		
Total	**236**	627		

Pensions Investigations

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

The principal commercial terms of the combined three settlements are:

- Financial support on the basis of a combined technical provisions deficit as at April 2015 of £582 million ($733 million) to be repaired by:
  a) upfront payments totalling £329.5 million ($415 million) from the Company's parent group cash paid directly into the schemes (inclusive of the agreed Recovery Plan contributions paid to the Brunel and Staveley schemes since 1 January 2016); and
  b) annual deficit contributions totalling £17.5 million ($22 million), including estimated administration expenses and levies to be paid until 2028.
- Access to sponsor support from Coats for future funding needs together with a Company guarantee.

As a result of the settlements reached with the three schemes, the total cash Recovery Plan contributions in 2017, including estimated administration expenses and levies, are expected to be £290 million ($365 million). This comprises £270 million ($340 million) upfront payments (which have all been paid in H1), and £20 million ($25 million) annual deficit contributions, including estimated administration expenses and levies. These cash payments continue to be excluded from the Group's adjusted Free Cash Flow.

Triennial funding valuations

The next triennial funding valuations for the UK Coats, Brunel and Staveley schemes have an effective date of 31 March 2018. These valuations will determine the Group’s future contribution requirements and will be met through a new schedule of agreed contributions. The Group expects this process to have been completed by 30 June 2019.

INDEPENDENT REVIEW REPORT TO COATS GROUP PLC

We have been engaged by Coats Group plc (the 'Company') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of Coats Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
31 July 2017

Condensed consolidated financial statements

Condensed consolidated income statement
For the half year ended 30 June 2017

	Note	Half year 2017 Before exceptional and acquisition related items unaudited US$m	Half year 2017 Exceptional and acquisition related items (note 3) unaudited US$m	Half year 2017 Total unaudited US$m	Half year 2016 * Before exceptional and acquisition related items unaudited US$m	Half year 2016 * Exceptional and acquisition related items (note 3) unaudited US$m	Half year 2016 * Total unaudited US$m	Full year 2016 Total audited US$m
Continuing operations								
Revenue		**740.0**	**-**	**740.0**	713.2	-	713.2	1,457.3
Cost of sales		**(451.2)**	**-**	**(451.2)**	(432.0)	-	(432.0)	(892.3)
Gross profit		**288.8**	**-**	**288.8**	281.2	-	281.2	565.0
Distribution costs		**(101.0)**	**-**	**(101.0)**	(98.7)	-	(98.7)	(197.2)
Administrative expenses		**(101.7)**	**(2.7)**	**(104.4)**	(103.0)	(1.5)	(104.5)	(214.7)
Other operating income	**4**	**3.1**	**-**	**3.1**	-	-	-	0.2
Operating profit		**89.2**	**(2.7)**	**86.5**	79.5	(1.5)	78.0	153.3
Share of profits of joint ventures		**0.5**	**-**	**0.5**	0.4	-	0.4	0.8
Investment income	**5**	**1.1**	**-**	**1.1**	2.7	-	2.7	4.3
Finance costs	**6**	**(12.3)**	**-**	**(12.3)**	(20.9)	-	(20.9)	(35.9)
Profit before taxation		**78.5**	**(2.7)**	**75.8**	61.7	(1.5)	60.2	122.5
Taxation	**7**	**(27.6)**	**0.4**	**(27.2)**	(22.7)	-	(22.7)	(46.8)
Profit from continuing operations		**50.9**	**(2.3)**	**48.6**	39.0	(1.5)	37.5	75.7
Loss from discontinued operations	**13**	**-**	**-**	**-**	(2.0)	(1.0)	(3.0)	(4.5)
Profit for the period		**50.9**	**(2.3)**	**48.6**	37.0	(2.5)	34.5	71.2
Attributable to:								
Equity shareholders of the company		**42.7**	**(2.3)**	**40.4**	28.8	(2.5)	26.3	59.3
Non-controlling interests		**8.2**	**-**	**8.2**	8.2	-	8.2	11.9
		50.9	**(2.3)**	**48.6**	37.0	(2.5)	34.5	71.2
Earnings per ordinary share (cents)	**8**							
Continuing operations:								
Basic				**2.89**			2.11	4.60
Diluted				**2.83**			2.11	4.53
Continuing and discontinued operations:								
Basic				**2.89**			1.90	4.28
Diluted				**2.83**			1.90	4.22
Adjusted earnings per share	**14 (d)**			**3.06**			2.22	4.91

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

Condensed consolidated statement of comprehensive income
For the half year ended 30 June 2017

	Half year 2017 unaudited US$m	Half year 2016 unaudited US$m	Full year 2016 audited US$m
Profit for the period	**48.6**	34.5	71.2
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) in respect of retirement benefit schemes	**68.8**	(143.9)	(324.8)
Tax relating to items that will not be reclassified	**-**	-	0.1
	68.8	(143.9)	(324.7)
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges arising during the period	**(0.4)**	(4.0)	(0.9)
Transferred to profit or loss on cash flow hedges	**0.3**	0.8	1.3
Exchange differences on translation of foreign operations	**0.2**	7.0	1.3
	0.1	3.8	1.7
Other comprehensive income and expense for the period	**68.9**	(140.1)	(323.0)
Net comprehensive income and expense for the period	**117.5**	(105.6)	(251.8)
Attributable to:			
Equity shareholders of the company	**109.2**	(113.8)	(263.0)
Non-controlling interests	**8.3**	8.2	11.2
	117.5	(105.6)	(251.8)

Condensed consolidated statement of financial position
At 30 June 2017

	Note	**30 June 2017 unaudited US$m**	30 June 2016 unaudited US$m	31 December 2016 audited US$m
Non-current assets				
Intangible assets		**291.1**	293.4	291.8
Property, plant and equipment		**268.5**	267.0	265.9
Investments in joint ventures		**10.6**	10.6	11.0
Available-for-sale investments		**1.2**	1.5	1.1
Deferred tax assets		**24.5**	14.8	18.1
Pension surpluses		**49.8**	51.1	50.8
Trade and other receivables		**17.6**	18.9	16.1
		663.3	657.3	654.8
Current assets				
Inventories		**235.4**	228.3	205.8
Trade and other receivables		**280.7**	297.4	248.4
Available-for-sale investments		**0.2**	0.2	0.2
Pension surpluses		**6.7**	6.6	6.7
Cash and cash equivalents	**12 (e)**	**142.2**	534.7	476.5
Non-current assets classified as held for sale	**13**	**0.2**	0.2	0.2
		665.4	1,067.4	937.8
Total assets		**1,328.7**	1,724.7	1,592.6
Current liabilities				
Trade and other payables		**(324.7)**	(315.6)	(310.8)
Current income tax liabilities		**(9.9)**	(11.8)	(8.9)
Bank overdrafts and other borrowings		**(35.8)**	(14.5)	(7.7)
Retirement benefit obligations:				
- Funded schemes		**(16.1)**	(34.8)	(309.6)
- Unfunded schemes		**(6.2)**	(6.0)	(6.2)
Provisions		**(14.7)**	(28.0)	(17.1)
		(407.4)	(410.7)	(660.3)
Net current assets		**258.0**	656.7	277.5
Non-current liabilities				
Trade and other payables		**(17.1)**	(10.5)	(15.8)
Deferred tax liabilities		**(33.5)**	(33.8)	(31.7)
Borrowings		**(366.9)**	(461.1)	(390.6)
Retirement benefit obligations:				
- Funded schemes		**(169.1)**	(436.6)	(272.0)
- Unfunded schemes		**(101.2)**	(95.5)	(96.4)
Provisions		**(36.0)**	(35.7)	(34.8)
		(723.8)	(1,073.2)	(841.3)
Total liabilities		**(1,131.2)**	(1,483.9)	(1,501.6)
Net assets		**197.5**	240.8	91.0
Equity				
Share capital	**9**	**87.4**	127.0	127.0
Share premium account		**5.9**	11.6	11.6
Own shares	**9**	**(8.6)**	(10.5)	(10.5)
Translation reserve		**(42.5)**	(116.1)	(121.1)
Capital reduction reserve		**59.8**	85.2	85.2
Other reserves		**246.6**	247.3	250.9
Retained loss		**(174.8)**	(128.8)	(274.6)
Equity shareholders' funds		**173.8**	215.7	68.5
Non-controlling interests		**23.7**	25.1	22.5
Total equity		**197.5**	240.8	91.0

Condensed consolidated statement of changes in equity
For the half year ended 30 June 2017

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Total US$m	Non-controlling interests US$m
Balance as at 1 January 2016	127.0	11.6	(7.6)	(123.1)	85.2	250.5	(14.3)	329.3	24.7
Net comprehensive income and expense for the period	-	-	-	7.0	-	(3.2)	(117.6)	(113.8)	8.2
Dividends	-	-	-	-	-	-	-	-	(7.8)
Purchase of own shares	-	-	(2.9)	-	-	-	-	(2.9)	-
Share based payments	-	-	-	-	-	-	3.1	3.1	-
Balance as at 30 June 2016	127.0	11.6	(10.5)	(116.1)	85.2	247.3	(128.8)	215.7	25.1
Balance as at 1 January 2016	127.0	11.6	(7.6)	(123.1)	85.2	250.5	(14.3)	329.3	24.7
Net comprehensive income and expense for the year	-	-	-	2.0	-	0.4	(265.4)	(263.0)	11.2
Dividends	-	-	-	-	-	-	-	-	(13.4)
Purchase of own shares	-	-	(2.9)	-	-	-	-	(2.9)	-
Share based payments	-	-	-	-	-	-	5.1	5.1	-
Balance as at 31 December 2016	**127.0**	**11.6**	**(10.5)**	**(121.1)**	**85.2**	**250.9**	**(274.6)**	**68.5**	**22.5**
Change in functional currency*	**(39.9)**	**(10.8)**	**1.8**	**78.5**	**(25.4)**	**(4.2)**	**-**	**-**	**-**
Net comprehensive income and expense for the period	**-**	**-**	**-**	**0.1**	**-**	**(0.1)**	**109.2**	**109.2**	**8.3**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(11.7)**	**(11.7)**	**(7.1)**
Issue of ordinary shares	**0.3**	**2.2**	**-**	**-**	**-**	**-**	**-**	**2.5**	**-**
Movement in own shares	**-**	**2.9**	**0.1**	**-**	**-**	**-**	**(3.1)**	**(0.1)**	**-**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**3.8**	**3.8**	**-**
Deferred tax on share schemes	**-**	**-**	**-**	**-**	**-**	**-**	**1.6**	**1.6**	**-**
Balance as at 30 June 2017	**87.4**	**5.9**	**(8.6)**	**(42.5)**	**59.8**	**246.6**	**(174.8)**	**173.8**	**23.7**

* The functional currency of the parent company Coats Group plc was changed during the six months ended 30 June 2017. See note 1 for further details.

Condensed consolidated cash flow statement
For the half year ended 30 June 2017

	Note	Half year 2017 unaudited US$m	Half year 2016 unaudited US$m	Full year 2016 audited US$m
Cash (outflow)/inflow from operating activities				
Net cash (outflow)/inflow from operations	**12 (a)**	**(277.5)**	(31.7)	79.4
Interest paid		**(5.9)**	(7.1)	(14.0)
Taxation paid		**(27.6)**	(30.7)	(57.9)
Net cash (absorbed in)/generated by operating activities		**(311.0)**	(69.5)	7.5
Cash outflow from investing activities				
Investment income	**12 (b)**	**1.3**	2.4	4.0
Net capital expenditure and financial investment	**12 (c)**	**(19.7)**	(16.4)	(38.7)
Acquisitions and disposals	**12 (d)**	**-**	(39.9)	(40.4)
Net cash absorbed in investing activities		**(18.4)**	(53.9)	(75.1)
Cash (outflow)/inflow from financing activities				
Purchase of own shares		**-**	(2.9)	(2.9)
Receipts from exercise of share options		**2.5**	-	0.2
Dividends paid to equity shareholders		**(11.4)**	-	-
Dividends paid to non-controlling interests		**(7.1)**	(7.8)	(13.4)
Net increase in debt and finance leasing		**3.8**	74.7	3.3
Net cash (absorbed in)/generated by financing activities		**(12.2)**	64.0	(12.8)
Net decrease in cash and cash equivalents		**(341.6)**	(59.4)	(80.4)
Net cash and cash equivalents at beginning of the period		**470.3**	631.4	631.4
Foreign exchange gains/(losses) on cash and cash equivalents		**9.1**	(45.6)	(80.7)
Net cash and cash equivalents at end of the period	**12 (e)**	**137.8**	526.4	470.3
Reconciliation of net cash flow to movement in net (debt)/cash				
Net decrease in cash and cash equivalents		**(341.6)**	(59.4)	(80.4)
Net increase in debt and lease financing		**(3.8)**	(74.7)	(3.3)
Change in net cash resulting from cash flows (Free cash flow)	**14 (e)**	**(345.4)**	(134.1)	(83.7)
Other non-cash movements		**(1.0)**	(0.8)	(1.6)
Foreign exchange movements		**7.7**	(46.6)	(77.1)
Decrease in net cash		**(338.7)**	(181.5)	(162.4)
Net cash at start of period		**78.2**	240.6	240.6
Net (debt)/cash at end of period	**12 (e)**	**(260.5)**	59.1	78.2

Notes to the condensed consolidated financial statements
For the half year ended 30 June 2017

1. Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting, as adopted by the European Union, and comply with the disclosure requirements of the Listing Rules of the UK Financial Services Authority.

The condensed consolidated financial statements for the six months ended 30 June 2017 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2016 were also reviewed but not audited.

The information for the year ended 31 December 2016 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). The financial information for the year ended 31 December 2016 is derived from the statutory accounts for that year, which have been filed with the Registrar of Companies. The audit report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or 498(3) of the Companies Act 2006.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, and are expected to be applied in the annual audited financial statements for the current year other than the following new and revised standards that were effective as of 1 January 2017:

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Annual Improvements to IFRS Standards 2014-2016 Cycle – Amendments to IFRS 12 Disclosure of Interests in Other Entities

The adoption of these standards has not had a material impact on the financial statements of the Group.

Change in functional currency

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

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

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

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

Discontinued operations

Following on from the disposal of the EMEA Crafts business in 2015, Coats closed its loss-making UK Crafts operations during the second half of 2016. The results of the UK Crafts business for the year ended 31 December 2016 were reported as a discontinued operation in the statutory accounts of the Group for that year. The results for the six months ended 30 June 2016 have been restated to reflect the UK Crafts business as a discontinued operation in the condensed consolidated income statement. Note 13 provides details on the results of the UK Crafts business.

1. Basis of preparation (continued)

Going concern

Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and this financial information is prepared on that basis.

Principal exchange rates

The principal exchange rates (to the US dollar) used are as follows:

		June 2017	June 2016	December 2016
Average	Sterling	**0.79**	0.70	0.74
	Euro	**0.92**	0.90	0.90
	Brazilian Real	**3.18**	3.70	3.48
	Indian Rupee	**65.69**	67.17	67.16
Period end	Sterling	**0.77**	0.75	0.81
	Euro	**0.88**	0.90	0.95
	Brazilian Real	**3.31**	3.21	3.25
	Indian Rupee	**64.62**	67.52	67.92

2. Operating segments

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

Segment revenue and results

Six months ended 30 June 2017:

	Industrial US$m	**Crafts US$m**	**Total US$m**
Revenue	**641.9**	**98.1**	**740.0**
Segment profit	**87.6**	**5.2**	**92.8**
UK pension scheme administrative expenses			**(3.6)**
Operating profit before exceptional and acquisition related items			**89.2**
Exceptional and acquisition related items			**(2.7)**
Operating profit			**86.5**
Share of profit of joint ventures			**0.5**
Investment income			**1.1**
Finance costs			**(12.3)**
Profit before taxation from continuing operations			**75.8**

2. Operating segments (continued)

Six months ended 30 June 2016:

	Industrial US$m	Crafts* US$m	Total * US$m
Revenue	609.1	104.1	713.2
Segment profit	80.9	2.7	83.6
UK pension scheme administrative expenses			(4.1)
Operating profit before exceptional and acquisition related items			79.5
Exceptional and acquisition related items			(1.5)
Operating profit			78.0
Share of profit of joint ventures			0.4
Investment income			2.7
Finance costs			(20.9)
Profit before taxation from continuing operations			60.2

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

Year ended 31 December 2016:

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

3. Exceptional and acquisition related items

The Group’s consolidated income statement format includes results both before and after exceptional and acquisition related items. This is consistent with the way financial performance is measured by management and reported to the Board.

Exceptional items

There were no exceptional items from continuing operations during the six months ended 30 June 2017 (six months ended 30 June 2016: $nil*; year ended 31 December 2016: $nil).

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

3. Exceptional and acquisition related items (continued)

Acquisition related items

Acquisition related items are set out below:

	Half year 2017 unaudited	Half year 2016 unaudited	Full year 2016 audited
	US$m	US$m	US$m
Acquisition related items:			
Administrative expenses:			
Acquisition transaction costs	**-**	1.0	0.9
Contingent consideration	**1.7**	0.3	2.4
Amortisation of acquired intangibles	**1.0**	0.2	1.3
Total acquisition related items before taxation	**2.7**	1.5	4.6

4. Other operating income

On 22 January 2017, the main distribution centre for the US Crafts business in Albany, Georgia suffered significant damage following a tornado strike, including one building which housed sourced products for yarns, threads and crafting implements. The decision had been taken to close the centre at the time and there were no injuries to Coats' personnel. Buildings in the distribution centre were leased and temporary alternative facilities are currently being used.

The tornado resulted in inventory with an original cost of $12.0 million being damaged. This amount has been written off and the charge included in cost of sales for the six months ended 30 June 2017. The Group's insurance policies covered the loss of inventory in full and a corresponding insurance recovery of $12.0 million has been recognised in cost of sales.

Although sales were adversely impacted, lost profits as well as incremental costs of re-establishing operations are included in the Group's business interruption insurance cover. The amount of insurance recovery recognised in excess of inventory write offs and incremental costs of re-establishing operations for the six months ended 30 June 2017 is $3.1 million and has been included within other operating income.

5. Investment income

	Half year 2017 unaudited	Half year 2016 unaudited	Full year 2016 audited
	US$m	US$m	US$m
Interest receivable on Parent Group cash *	**0.1**	1.4	2.2
Other interest receivable and similar income	**0.8**	1.0	1.6
Income from other investments	**0.2**	0.3	0.5
	1.1	2.7	4.3

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

6. Finance costs

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Interest on bank and other borrowings	**6.7**	7.2	14.4
Net interest on pension scheme assets and liabilities	**5.1**	7.1	13.6
Other finance costs including unrealised gains and losses on foreign exchange contracts	**0.5**	6.6	7.9
	12.3	20.9	35.9

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

7. Taxation

The taxation charges for the six months ended 30 June 2017 and 30 June 2016 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

For the six months ended 30 June 2017 the tax credit in respect of exceptional and acquisition related items was $0.4 million (30 June 2016: $nil). For the year ended 31 December 2016 the tax credit in respect of exceptional and acquisition related items was $0.4 million.

8. Earnings per 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 period, excluding shares held by the Employee Benefit Trust but including shares under share incentive schemes which are not contingently issuable.

The calculation of basic earnings per ordinary share from continuing and discontinued operations is based on the profit attributable to equity shareholders. The weighted average number of ordinary shares used for the calculation of basic earnings per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 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.

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Profit from continuing operations attributable to equity shareholders	**40.4**	29.3	63.8
Profit from continuing and discontinued operations attributable to equity shareholders	**40.4**	26.3	59.3

	Half year 2017 unaudited Number of shares m	Half year 2016 unaudited Number of shares m	Full year 2016 audited Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,398.0**	1,383.6	1,386.6
Adjustment for share options and LTIP awards	**27.2**	-	20.5
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,425.2**	1,383.6	1,407.1

8. Earnings per share (continued)

	Half year 2017 unaudited cents	Half year 2016 * unaudited cents	Full year 2016 audited cents
Continuing operations:			
Basic earnings per ordinary share	**2.89**	2.11	4.60
Diluted earnings per ordinary share	**2.83**	2.11	4.53
Continuing and discontinued operations:			
Basic earnings per ordinary share	**2.89**	1.90	4.28
Diluted earnings per ordinary share	**2.83**	1.90	4.22

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

9. Issued share capital

During the six months ended 30 June 2017 the Company issued 4,830,338 Ordinary Shares of 5p each (six months ended 30 June 2016: nil; year ended 31 December 2016: nil) following the exercise of share options as set out below:

	Number of Shares	**US$m**
At 1 January 2017	1,407,612,282	127.0
Issue of ordinary shares	4,830,338	0.3
Change in functional currency (see note 1)	-	(39.9)
At 30 June 2017	**1,412,442,620**	**87.4**

The own shares reserve of $8.6 million at 30 June 2017 (31 December 2016: $10.5 million; 30 June 2016: $10.5 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 30 June 2017 was 21,080,933 (31 December 2016: 25,746,861; 30 June 2016: 25,900,080).

10. Dividends

	Half year 2017 unaudited US$m	Half year 2016 unaudited US$m	Full year 2016 audited US$m
2016 final dividend paid - 0.84 cents per share	**11.7**	-	-

The directors have declared an ordinary interim dividend per share of 0.44 cents (30 June 2016: nil) to be paid on 17 November 2017 to shareholders on the register on 27 October 2017. In line with the requirements of IAS 10 Events after the Reporting Period, these condensed consolidated financial statements do not reflect this interim dividend payable.

11. US environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17 mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Approximately 52 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation that are not currently funding the study of the river, including those that are the most responsible for its contamination.

In April 2014, the EPA released a Focused Feasibility Study and Proposed Plan (FFS) for the lower 8 miles of the LPR. The FFS analyses a series of remedial alternatives.

In March 2015, CC and other companies submitted a petition to EPA, asserting that they are de minimis parties and seeking a meeting to commence settlement discussions.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR pursuant to the FFS at an estimated cost of $1.38 billion on a net present value basis. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider the CPG's proposed remedial alternative for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower eight miles of the LPR. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC, filed for bankruptcy protection in June 2016, but OCC is expected to pay its share of the remedial costs even if Maxus obtains some degree of protection in the bankruptcy proceeding, and objections have been filed opposing such protection. While the ultimate costs of the remedial design and the final remedy are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties has not yet been determined.

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. At the same time, EPA also announced its intention to separately identify those parties responsible for the discharge of dioxins, furans or polychlorinated biphenyls, being the most significant risk drivers, in a forthcoming letter. Parties that are neither offered an early cash out settlement nor associated with the primary risk drivers will be invited to participate in an allocation process to determine their eligibility for a separate cash out settlement. CC has previously indicated to EPA that it is not responsible for the primary risk drivers.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. As at 30 June 2017, $3.7 million of this provision had been utilised. The remaining provision at 30 June 2017, taking into account insurance reimbursement, was $12.1 million. The process concerning the LPR continues to evolve and these estimates are subject to change based upon the scope of the remedy selected by EPA, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, CC could record additional provisions and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

12. Notes to the condensed consolidated cash flow statement

a) Reconciliation of operating profit to net cash (outflow)/inflow from operations

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Operating profit	**86.5**	78.0	153.3
Depreciation	**15.2**	16.1	31.9
Amortisation of intangible assets	**4.9**	4.2	8.8
Acquisition related items (see note 3)	**2.7**	1.5	4.6
Operating profit before exceptional and acquisition related items, depreciation and amortisation (Adjusted EBITDA)	**109.3**	99.8	198.6
Increase in inventories	**(25.1)**	(17.7)	(3.7)
(Increase)/decrease in debtors	**(30.4)**	(27.7)	5.9
Increase/(decrease) in creditors	**18.9**	(7.5)	(5.7)
Provision and pension movements	**(353.2)**	(76.0)	(113.3)
Currency and other non-cash movements	**3.5**	1.3	2.5
Discontinued operations	**(0.5)**	(3.9)	(4.9)
Net cash (outflow)/inflow from operations	**(277.5)**	(31.7)	79.4

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

b) Investment income

	Half year 2017 unaudited US$m	Half year 2016 unaudited US$m	Full year 2016 audited US$m
Interest and other income	**0.2**	1.4	3.0
Dividends received from joint ventures	**1.1**	1.0	1.0
	1.3	2.4	4.0

c) Capital expenditure and financial investment

	Half year 2017 unaudited US$m	Half year 2016 unaudited US$m	Full year 2016 audited US$m
Acquisition of property, plant and equipment and intangible assets	**(19.8)**	(17.5)	(40.1)
Acquisition of available-for-sale investments	**(0.1)**	-	-
Disposal of available-for-sale investments	**-**	-	0.3
Disposal of property, plant and equipment	**0.2**	1.1	1.1
	(19.7)	(16.4)	(38.7)

12. Notes to the condensed consolidated cash flow statement (continued)

d) Acquisitions and disposals

	Half year 2017 unaudited US$m	Half year 2016 unaudited US$m	Full year 2016 audited US$m
Acquisition of businesses	**-**	(35.4)	(36.3)
Investment in joint venture	**-**	(0.4)	(0.4)
Discontinued operations (note 13)	**-**	(4.1)	(3.7)
	-	(39.9)	(40.4)

e) Summary of net (debt)/cash

	30 June 2017 unaudited US$m	30 June 2016 unaudited US$m	31 December 2016 audited US$m
Parent group cash and cash equivalents *	**2.1**	396.0	343.1
Other cash and cash equivalents	**140.1**	138.7	133.4
Total cash and cash equivalents	**142.2**	534.7	476.5
Bank overdrafts	**(4.4)**	(8.3)	(6.2)
Net cash and cash equivalents	**137.8**	526.4	470.3
Other borrowings	**(398.3)**	(467.3)	(392.1)
Total net (debt)/cash	**(260.5)**	59.1	78.2

***** Parent group cash and cash equivalents at 31 December 2016 and 30 June 2016 related to the realisation of investments previously held by Coats Group plc. During the six months ended 30 June 2017, upfront pension payments were made into the UK Coats Pension Plan, the Brunel Holdings Pension scheme and the Staveley Industries Retirement Benefit Scheme out of Parent group cash following the signing of binding settlement agreements with the Trustees of the schemes.

13. Discontinued operations and assets held for sale

Following on from the disposal of the EMEA Craft business in 2015, Coats closed its loss-making UK Crafts operations with the business ceasing operations during the second half of 2016. The results of the UK Crafts business for the year ended 31 December 2016 were reported as a discontinued operation and amounts for the six month ended 30 June 2016 have been restated to reflect the UK Crafts business as a discontinued operation.

The results of the discontinued UK Crafts business are presented below.

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Revenue	**-**	6.8	8.8
Cost of sales	**-**	(5.3)	(6.7)
Gross profit	**-**	1.5	2.1
Distribution costs	**-**	(3.2)	(3.8)
Administrative expenses	**-**	(1.2)	(2.8)
Operating loss	**-**	(2.9)	(4.5)
Finance costs	**-**	(0.1)	-
Loss before taxation	**-**	(3.0)	(4.5)
Tax on loss	**-**	-	-
Loss from discontinued operations	**-**	(3.0)	(4.5)

The UK Crafts results for the six months ended 30 June 2016 included exceptional closure related costs of $1.0 million (year ended 31 December 2016: $1.2 million).

The loss per ordinary share from discontinued operations is as follows:

	Half year 2017 unaudited Cents	Half year 2016 * unaudited Cents	Full year 2016 audited Cents
Loss per ordinary share from discontinued operations:			
Basic and diluted	**-**	(0.21)	(0.32)

The table below sets out the cash flows from discontinued operations:

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Net cash outflow from operating activities	**(0.5)**	(3.9)	(4.9)
Net cash outflow from investing activities	**-**	(4.1)	(3.7)
Net cash flows from discontinued operations	**(0.5)**	(8.0)	(8.6)

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

13. Discontinued operations and assets held for sale (continued)

Assets held for sale

The non-current assets held for sale are property, plant and equipment of $0.2 million (31 December 2016: $0.2 million, 30 June 2016: $0.2 million).

14. Alternative performance measures

Alternative performance measures included in this report 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. Non-GAAP amounts, however, are not a measure of financial performance under IFRS and should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is included below. The non-GAAP measures set out below are key performance indicators (KPIs) and have been chosen by the Board to measure the Group's progress, development and ongoing performance. Further details on KPIs, including explanations as to why they are used, are set out in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2016 on pages 14 and 15.

a) Organic growth on a constant exchange rate (CER) basis

Organic growth measures the change in revenue and operating profit 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 period exchange rates.

Revenue	**Half year 2017 unaudited US$m**	Half year 2016 * unaudited US$m	% Growth
Revenue from continuing operations	**740.0**	713.2	4%
Constant currency adjustment	**-**	(7.1)	
Revenue on a CER basis	**740.0**	706.1	5%
Revenue from acquisitions	**(13.1)**	-	
Organic revenue on a CER basis	**726.9**	706.1	3%

Operating profit	**Half year 2017 unaudited US$m**	Half year 2016 * unaudited US$m	% Growth
Operating profit from continuing operations[1]	**86.5**	78.0	11%
Exceptional and acquisition related items (note 3)	**2.7**	1.5	
Adjusted operating profit from continuing operations	**89.2**	79.5	12%
Constant currency adjustment	**-**	(1.1)	
Operating profit on a CER basis	**89.2**	78.4	14%
Operating profit from acquisitions	**(3.0)**	-	
Organic operating profit on a CER basis	**86.2**	78.4	10%

[1] Refer to the condensed consolidated income statement for a reconciliation of profit before taxation to operating profit.

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

14. Alternative performance measures (continued)

b) Pre-exceptional operating profit before depreciation and amortisation (Adjusted EBITDA)

Adjusted EBITDA for the six months ended 30 June 2017 was $109.3 million (six months ended 30 June 2016: $99.8 million*; year ended 31 December 2016: $198.6 million). Adjusted EBITDA on a last twelve months basis to 30 June 2017 was $208.1 million (30 June 2016: $196.2 million*). Net debt for the Coats operating business (excluding Parent Group cash) at 30 June 2017 was $262.6 million (30 June 2016: $336.9 million, 31 December 2016: $264.9 million). This gives a leverage ratio of net debt to Adjusted EBITDA of 1.3 (30 June 2016: 1.7, 31 December 2016: 1.3). Refer to notes 12(a) and 12(e) for definitions and calculations of Adjusted EBITDA and net debt.

c) Underlying effective tax rate

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Profit before taxation	**75.8**	60.2	122.5
Exceptional and acquisition related items (note 3)	**2.7**	1.5	4.6
Net interest on pension scheme assets and liabilities (note 6)	**5.1**	7.1	13.6
Underlying profit before taxation	**83.6**	68.8	140.7
Taxation	**27.2**	22.7	46.8
Tax credit in respect of exceptional and acquisition related items	**0.4**	-	0.4
Underlying taxation charge	**27.6**	22.7	47.2
Underlying effective tax rate	**33%**	33%	34%

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:

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Profit from continuing operations	**48.6**	37.5	75.7
Non-controlling interests	**(8.2)**	(8.2)	(11.9)
Profit from continuing operations attributable to equity shareholders	**40.4**	29.3	63.8
Exceptional and acquisition related items (note 3)	**2.7**	1.5	4.6
Tax credit in respect of exceptional and acquisition related items	**(0.4)**	-	(0.4)
Adjusted profit from continuing operations	**42.7**	30.8	68.0
Weighted average number of Ordinary Shares	**1,397,982,741**	1,383,560,539	1,386,628,130
Adjusted earnings per share (cents)	**3.06**	2.22	4.91
Adjusted earnings per share (growth %)	**38%**		

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share is the same as that used for basic earnings per Ordinary Share from continuing operations (see note 8).

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

14. Alternative performance measures (continued)

e) Adjusted free cash flow

A reconciliation of the change in net cash resulting from cash flows (free cash flow), the most comparable GAAP measure, to adjusted free cash flow is set out below:

	Half year 2017 unaudited US$m	Half year 2016 * unaudited US$m	Full year 2016 audited US$m
Change in net cash resulting from cash flows (free cash flow)	**(345.4)**	(134.1)	(83.7)
Acquisition of businesses (note 12(d))	**-**	35.4	36.3
Net cash flows from discontinued operations (note 13)	**0.5**	8.0	8.6
Net cash outflow in respect of reorganisation costs	**0.2**	6.7	8.0
UK Pensions Regulator ('tPR') investigation costs	**2.0**	2.3	3.7
Payments to UK pension schemes	**352.7**	64.9	99.1
Net cash flows in respect of other exceptional and acquisition related items	**1.7**	3.3	4.2
Purchase of own shares by Employee Benefit Trust	**-**	2.9	2.9
Receipts from exercise of share options	**(2.5)**	-	(0.2)
Dividends paid to equity shareholders	**11.4**	-	-
Tax inflow in respect of adjusted cash flow items	**(0.1)**	(0.1)	(0.8)
Adjusted free cash flow	**20.5**	(10.7)	78.1

Adjusted free cash flow on a last twelve months' basis to 30 June 2017 was $109.3 million (30 June 2016: $84.0 million).

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

14. Alternative performance measures (continued)

f) Return on capital employed

Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items on a last twelve months' basis divided by period end capital employed as set out below.

	30 June 2017 unaudited US$m	30 June 2016 unaudited US$m	31 December 2016 audited US$m
Operating profit before exceptional and acquisition related items on a last twelve months' basis	**167.6**	154.3	157.9
Non-current assets			
Acquired intangible assets *	**39.8**	37.7	37.9
Property, plant and equipment	**268.5**	267.0	265.9
Trade and other receivables	**17.6**	18.9	16.1
Current assets			
Inventories	**235.4**	226.8	205.8
Trade and other receivables	**280.7**	295.7	248.4
Current liabilities			
Trade and other payables	**(324.7)**	(313.7)	(310.8)
Non-current liabilities			
Trade and other payables	**(17.1)**	(10.5)	(15.8)
Capital employed	**500.2**	521.9	447.5
ROCE	**34%**	30%*	35%*

The amounts shown above for current assets and current liabilities at 30 June 2016 have been restated to exclude the discontinued UK Crafts business.

* With effect from 1 January 2017 capital employed used in the definition of ROCE includes intangible assets acquired in connection with the acquisitions of GSD, Fast React and Gotex. ROCE for prior periods have been restated consistent with the current period definition. This change has been made to better measure the ability of the Group's assets to deliver returns including intangible assets acquired through acquisitions of businesses by Coats.

15. Fair value of assets and liabilities

As at 30 June 2017 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

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 that include inputs for the asset or liability that are not observable market data (unobservable inputs).

15. Fair value of assets and liabilities (continued)

Financial assets measured at fair value

30 June 2017	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Forward foreign exchange contracts	**1.8**	-	**1.8**	-
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	**1.4**	-	-	**1.4**
Interest rate swap contracts designated as effective hedging instruments	**0.3**	-	**0.3**	-
Total	**3.5**	-	**2.1**	**1.4**

30 June 2016	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Forward foreign exchange contracts	2.5	-	2.5	-
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	1.7	-	-	1.7
Total	4.2	-	2.5	1.7

31 December 2016	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Forward foreign currency contracts	3.1	-	3.1	-
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	1.3	-	-	1.3
Interest rate swap contracts designated as effective hedging instruments	0.5	-	0.5	-
Total	4.9	-	3.6	1.3

15. Fair value of assets and liabilities (continued)

Financial liabilities measured at fair value

30 June 2017	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Forward foreign currency contracts	**(1.9)**	-	**(1.9)**	-
Total	**(1.9)**	-	**(1.9)**	-

30 June 2016	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Forward foreign currency contracts	(7.9)	-	(7.9)	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Interest rate swap contracts designated as effective hedging instruments	(3.2)	-	(3.2)	-
Total	(11.1)	-	(11.1)	-

31 December 2016	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Forward foreign currency contracts	(8.7)	-	(8.7)	-
Total	(8.7)	-	(8.7)	-

Level 1 financial instruments are valued based on quoted bid prices in an active market. Level 2 financial instruments are measured by discounted cash flow. For interest rates swaps future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the various counterparties. For foreign exchange contracts future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the various counterparties. For equity instruments that are classified as level 3 financial instruments the carrying value approximates to fair value.

16. Principal risks and uncertainties

The principal risks and uncertainties which may have an impact on the Group's operations, performance or future prospects remain those detailed in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2016. These principal risks and uncertainties are as follows:

High impact operational risks

- Product liability
- Environmental non-performance
- Failure of critical infrastructure
- Data controls and security
- Bribery and anti-competitive behaviour

Material legacy risks

- Pension scheme deficit funding *
- Legacy environmental risks

Risks to strategy delivery

- Appropriate capability development
- Emergence of disruptive competitor behaviour in core markets
- Economic risk

More information on these principal risks and uncertainties together with an explanation of the Group's approach to risk management is set out in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2016 on pages 20 to 24, a copy of which is available on the Group's website, www.coats.com.

* In relation to the material legacy risks, the Coats Group plc Annual Report and Accounts for the year ended 31 December 2016 noted that the UK Pensions Regulator's investigation in relation to the Staveley scheme could lead to a Financial Support Direction being imposed on the Group. As announced on 26 June 2017, the Group signed a binding settlement agreement with the Staveley scheme and, as a result, the UK Pensions Regulator confirmed that its regulatory action has ceased in relation to the Staveley scheme.

17. Seasonality

The Group's revenues and profits have not historically been subject to significant seasonal trends. The working capital cycle of the Group means that cash inflow trends have historically been weighted towards the second half of the financial year.

18. Related party transactions

There have been no related party transactions or changes in related party transactions described in the 2016 Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

19. Directors

The following persons were directors of Coats Group plc during the half year ended 30 June 2017 and up to the date of this report:

M Clasper CBE
R Sharma
M N Allen
R Anderson
S Boddie
N Bull
D Gosnell
F Philip
A Rosling CBE

20. Publication

This statement will be available at the registered office of the Company, 1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD. A copy will also be displayed on the Company's website, www.coats.com.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.28R (disclosure of related parties' transactions and changes therein).

The Directors of Coats Group plc are listed in Note 19 to the Condensed Consolidated Financial Statements.

By order of the Board,

M Clasper
Chairman
31 July 2017

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Registered in England No. 103548