

12 Thread operating review



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Chief Operating Officer/Thread

The steady progress in sales and operating profit seen in the first half year was not sustained in the second half as the economic slowdown intensified in the US and spread to major European and Asian economies.

77% of Group sales	2001	2000
	£m	£m
Sales	938	966
Operating profit before reorganisation costs	73	94
Net assets	617	614
Return on year end net assets	11.8%	15.4%
Capital spend	50	36
Employees at year end	29,451	29,954

of one spinning plant and a 30% reduction in salaried staff. The full benefit of these measures will not fully impact results until 2002. Notwithstanding market conditions, North American service capability has been enhanced with continued investment in dyeing, finishing and distribution in Mexico and Honduras and a new dyeing facility in the Dominican Republic. The US crafts business delivered a strong performance, particularly in the fourth quarter as consumers engaged in more home based leisure activity.

Overall performance

Overall performance was dominated by the downturn in North America which outweighed progress elsewhere.

North America

The performance of the industrial thread business trailed 2000 levels throughout 2001. Softening US consumer demand for apparel and a reduction in inventory levels throughout the supply chain resulted in a sharp contraction of US apparel manufacturing from the first quarter 2001. Demand for apparel thread fell across NAFTA and most of the adjacent Caribbean and Central American supply base. US demand for speciality threads for the automotive and furniture industries also declined over 2000, although there was some recovery towards the end of the year. Retailer insistence on lower input costs and increased competitor activity placed additional pressure on margins. Action to aggressively reduce cost in the US was initiated early in the year, including the closure

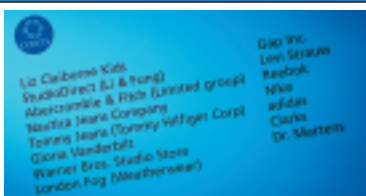
Europe

Good sales progress was registered in the first half year in both the industrial and consumer thread business. Restructuring in Western Europe continued, with the closure of a spinning plant in the UK, downsizing of French operations and smaller productivity related projects in most markets. Sales faltered in the second half year as market conditions deteriorated, notably in Germany, France and the UK. The DMC industrial thread business, acquired in January 2001, has been successfully integrated into the Coats European network. Industrial thread service capability in Eastern Europe has been strengthened with the commissioning of a dyeing and finishing facility in Romania. The Turkish devaluation negatively impacted results throughout the year.

Asia Pacific/Africa

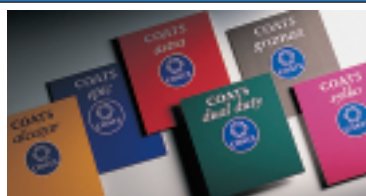
Strong industrial thread sales were recorded in the first half year in almost all Asian businesses as healthy apparel orders for the US market, placed late

Global key account management



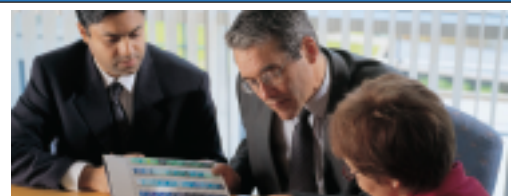
Coats thread is specified by the world's leading brands.

Global Offer



By ensuring uniform manufacturing conditions in all its plants, Coats guarantees the quality and availability of its brands worldwide.

Coats Sewing Solutions



We offer value adding services to our customers which guarantee colour accuracy and consistency across the global supply chain.

2000/early 2001, were fulfilled. A sharp correction occurred in the second half as orders reduced from the US and latterly European and Japanese markets. Demand for footwear, a key product area in Asia, remained below 2000 levels throughout the year. The impact on thread sales was partly compensated by improved share in key footwear accounts. Consumer thread sales continued to grow through expanding distribution coverage.

We continue to invest ahead of growth in the China industrial thread market, expanding all existing facilities during the year and opening one new dyeing and finishing plant in Qingdao. Southern African service capability has been bolstered by further expansion in Mauritius and the commissioning of a new dyeing and finishing facility in Madagascar.

India delivered a similar performance to the rest of Asia during 2001. Significant progress has been made towards developing India as a major source of low cost product for the Coats global supply chain. This will be further expanded in 2002.

South America

Performance throughout the year was negatively affected by currency devaluation in Brazil. This was offset to some extent by a strong performance in Colombia, where our market position has been strengthened by the acquisition and successful integration of the DMC business.

Priorities

In the face of short term economic and political uncertainties, management action has focused on three critical areas:

First, the strengthening of relationships with key global customers. Coats, with its unique global spread, provides the most comprehensive service offer to the apparel and footwear industry. This is of increasing relevance to customers grappling with the complexity and cost of increasingly fragmented supply chains.

Secondly, the reduction of cost base in all areas of operation. We will press forward with the restructuring of capacity in Europe and North America and the mobilisation of our low cost supply capability from bases in Mexico, Eastern Europe and Asia. Strategic partnerships with global suppliers are being leveraged fully to optimise input costs.

Thirdly, the enhancement of service capability in low cost locations. During 2001 we have continued to invest in fast response service units, notwithstanding the difficult economic climate. Further strengthening of our service network is planned for 2002, both expansion of existing capacity and greenfield investments in Bulgaria, Thailand and China.

R&D



Our state-of-the-art R&D centres in the US and the UK spearhead our product and process development efforts.

Investment



Manufacturing capacity has been established in low cost locations in Asia, Eastern Europe and Central America. We attempt to anticipate market developments – our first of nine manufacturing units in China was established in 1982.

Procurement



Our global presence and size allow us to forge strategic partnerships with suppliers and optimise cost efficiencies.