

Results

In 2004, Coats plc, in line with its operational objectives, delivered an exceptionally strong cash performance, albeit at the expense of underlying profit which was slightly lower.

Net cash inflow from operating activities was \$200.2 million, including \$93.5 million due to improved management of working capital, and net debt was reduced by \$271.3 million. Although cash generation was the main priority, good progress was made in sales. Good growth of industrial thread in low-cost markets and strong crafts sales in North America more than offset the expected continued decline in industrial thread markets in Western Europe and North America. Overall, like-for-like growth in sales was 3% (see Operating and financial review), with 6% in crafts and 2% in industrial.

The main disappointment was a slight decrease in underlying Thread operating margin – from 7.2% to 6.6% (as set out in the Operating and financial review) – due almost entirely to a sharp decline in activity in certain Western European industrial thread plants, as a result of accelerated migration of customers to low-cost regions and our stock reduction program. This offset benefits from earlier reorganisation projects. All other regions outside Europe delivered underlying growth in operating profit.

The Company became a subsidiary of Guinness Peat Group plc on 1 April 2004 and subsequently changed its name from Coats Holdings plc to Coats plc. The operations of the Group comprise almost entirely the operations of Coats Holdings Ltd, previously named Coats Ltd, which was acquired on 7 April 2003. The reported comparative figures in the profit and loss and cash flow statements for 2003 therefore reflect Coats Holdings operations since that date. However in order to assist understanding of changes in underlying trading performance, pro-forma full year figures for 2003 have been provided in the segmental analysis in the Operating and financial review.

Investment, reorganisation and disposals

Rebalancing industrial thread capacity in line with anticipated customer migration continued to dominate the Group's spending priorities. During 2004 major new facilities for industrial thread and zips in Shenzhen, China were completed. At the same time several facilities in Western Europe and North America were closed or downsized.

Towards the end of 2004, the Group entered into an agreement to acquire the crafts distribution business of Almedahls in Sweden and Norway. This business, which has an annual turnover of approximately \$27 million, fills a gap in our coverage of the Western European crafts market and is expected to make a modest contribution to earnings from 2006 onwards.

The sale of the last significant non-thread business, UK Bedwear, was completed in February 2005.

During 2004, various surplus properties were sold with proceeds amounting to \$42.6 million (2003 – \$50.9 million). In addition, the sale of investments and other surplus assets generated cash of \$63.5 million (2003 – \$9.0 million). In most cases, the availability of surplus properties is the direct result of operational restructuring and, although there may be timing differences, to a large extent their sale will offset the associated cash reorganisation costs. In 2004, property disposals more than covered cash reorganisation costs of \$36.2 million (2003 – \$29.7 million).

European Commission Investigation

As previously reported, over the last three years the Group has been co-operating with the European Commission in their investigation into former trading practices in the European haberdashery and thread markets. The investigation has been split into three sub-cases covering hand-sewing needles, industrial thread and fasteners. In October 2004 the Commission reached a decision on hand-sewing needles which included a fine of Euro 30 million in respect of alleged infringements. We are vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

A final decision by the Court is likely to take two to three years and it is also not certain when the Commission will issue its decisions in respect of the other cases. However, full provision has been made for any anticipated eventual payment.

Refinancing

The renegotiation of the Group's banking facilities referred to in last year's report was completed in March 2004. Further details are given in Notes 14 and 15 to the accounts.

Prospects

2005 will be another year of reorganisation and consolidation, the full benefits of which are expected to be reflected in 2006 and beyond.

Investment in new plant and reorganisation spend in 2005 is expected to remain at a similar level to 2004. As in 2004, disposal of surplus assets should largely compensate in terms of cash flow. This spend should start to reduce from 2006. Given the nature of the textiles and clothing industry, there will inevitably be an ongoing requirement for further adjustments in capacity at specific locations but the associated cost of transfer is expected to be significantly lower than in recent years.

The investment and reorganisation undertaken in 2004 and in previous years will begin to yield operating benefits in 2005. Although it is still too early to determine the final impact of the removal of textile quotas, the Group is well placed to take advantage of its leading market positions in crafts and industrial thread. Overall demand remains reasonably firm, with sales in the first quarter 3% ahead of previous year on a like-for-like basis.

Gary Weiss

Chairman
29 April 2005