

The Directors present their report and the financial statements for the year ended 31 December 2004.

Principal activities The principal activities of the Group during the year were the manufacture, processing and distribution of sewing thread for industrial and domestic use.

Change of Company name The Company changed its name from Coats Holdings plc to Coats plc with effect from 1 July 2004.

Results and dividends The results of the Group for the year are set out in the profit and loss account on page 10.

A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Operating and financial review on pages 1 to 5.

The Directors do not recommend the payment of a dividend (nil – 2003).

Directors Gary Weiss and Blake Nixon served as Directors throughout the year. Rex Wood-Ward resigned as a Director on 1 April 2004 but was reappointed on 8 September 2004, Michael Smithyman was appointed on 4 May 2004 and Tony Gibbs was appointed on 27 May 2004. Don La Vigne retired from the Board on 30 June 2004.

Directors' interests Michael Smithyman has an interest in 30 B Growth Shares of the Company which were allotted to him on 29 December 2004 and he had an interest in 90,000 ordinary shares of the Company's ultimate parent company, Guinness Peat Group plc throughout the year. Michael Smithyman had no interest in the share capital of any of the other subsidiaries of Guinness Peat Group plc. The interests of Gary Weiss, Tony Gibbs and Blake Nixon in the shares of the ultimate parent company, Guinness Peat Group plc, and its subsidiaries, are declared in the statutory accounts of that company. Rex Wood-Ward had no interest in the shares of Guinness Peat Group plc or any of its subsidiaries during the year.

Employment practices The Group is committed to ensuring that employment practices and policies continue to match best practice in every market where we operate. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated. A gathering of Coats Business Leaders was held to this effect in April 2004.

The Group remains committed to meaningful employee consultation. A plenary meeting of Coats European Works Council (EWC) took place in September 2004 and the EWC Select Committee, created in 2002, was consulted in relation to key projects affecting employment in more than one European country.

The Group continuously develops its employment practices and policies and uses the best practice that exists in its units to the benefit of its wider operations.

Health and safety The Group is committed to effective Health and Safety risk management. A comprehensive Health and Safety management system was developed in 2003 and launched in 2004. Line management across Coats' businesses is fully accountable for the consistent implementation of Coats Health and Safety standards and policies.

Ethical employment Coats operates worldwide in full recognition of the ILO Conventions, the UN Declaration of Human Rights and Convention on Rights of the Child and the OECD Guidelines for Multinational Enterprises. Coats Worldwide Employment Standards Statement contains the ethical principles which are observed across its global operations. The statement refers to employee rights to a safe and healthy work environment, the right to collective representation and the Group's commitment to ensuring that no persons below the legal age of employment are employed.

It is the Group's policy to offer equal opportunities to disabled persons applying for vacancies and provide them with the same opportunities for employment, training, career development and promotion as are available to all employees, within the limitation of their aptitude and abilities. Employment within the Group is offered on the basis of the person's ability to work and not on the basis of their race, individual characteristics, creed or political opinion. The Group seeks to ensure that its suppliers also act in full conformity with this policy.

Supplier credit It is the Group's policy that its subsidiaries follow the guidance issued by the CBI regarding Better Payment Practice. A copy of the guidance may be obtained from the CBI. In particular, for all trade creditors it is the Group's policy to:

- agree the terms of payment at the start of business with a supplier;
- ensure suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

As the parent company does not trade, the number of days' credit in 2004 was nil (2003 – nil).

Research and development Investment in R&D this year has again focused primarily on further development of the Group's proprietary colour management systems. These are ahead of any commercial equivalents and support the high performance level we have in the businesses' dyehouses. To respond to the increasing complexity of the business' internal supply chain the business is migrating these colour systems from standalone systems for each dyehouse to networked enterprise-wide systems that provide for fluid communications along the length of the supply chain. Having completed beta testing by the end of 2003, by the end of 2004 approximately 60% of Coats dyehouses were operating under the new system. During 2004 we have also developed and started to implement a replacement for our ColourTalk colour imaging system that can be integrated to the dyehouse system or can operate on a standalone basis. We continue to use external research institutions to support this work.

UK pension fund The Coats Pension Plan is a contributory scheme open to UK employees of the Group and provides benefits additional to those from the State Basic Pension Scheme, whilst enabling members to be contracted out of the State Earnings Related Pension Scheme. In addition to the normal retirement pension there are generous benefits payable if members die in service or retire early because of ill health. Members may also receive an early retirement pension on favourable terms from age 50 onwards.

Insurance for officers of the Group The Group maintains insurance for officers of the Company and its subsidiaries indemnifying them against certain liabilities incurred by them while acting as officers of the Company and its subsidiaries.

Charitable donations Payments of \$121,000 (2003 – \$68,000) were made to charities during the year to UK and Overseas recipients.

Auditors A resolution to re-appoint Deloitte & Touche LLP as the Group's auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities for the financial statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that period. The Directors are also required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. It is also the Directors' responsibility to maintain adequate accounting records, safeguard the assets of the Group and take reasonable steps in preventing and detecting fraud and other irregularities.

The Directors confirm that suitable accounting policies consistently applied and supported by reasonable and prudent judgment and estimates, have been used in the preparation of the financial statements and that applicable accounting standards have been followed.

By order of the Board

Gemma Aldridge
Company Secretary
29 April 2005