



**Coats
Group plc**

Coats Group plc

Introduction to Coats

April 2016

Disclaimer

Restricted distribution

This presentation is not for release, publication or distribution, in whole or in part, directly or indirectly, in, into or from any jurisdiction where to do so would constitute a violation of the relevant laws or regulations of such jurisdiction (the 'Restricted Jurisdictions').

Not an offer

This presentation is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the matters contained herein or otherwise.

Forward-looking statements

This document contains certain forward-looking statements, including statements regarding Coats Group plc's plans ('Coats' or the 'Company'), objectives and expected performance. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts of licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; and war and terrorism. These forward-looking statements speak only as at the date of this document.

Not a profit forecast

The financial information contained in this presentation is based on publicly available historic financial information of Coats and is not intended to be a profit forecast or profit estimate under applicable rules.

Rounding

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Agenda

- Overview
- Operations
- Financials
- Summary
- Appendices

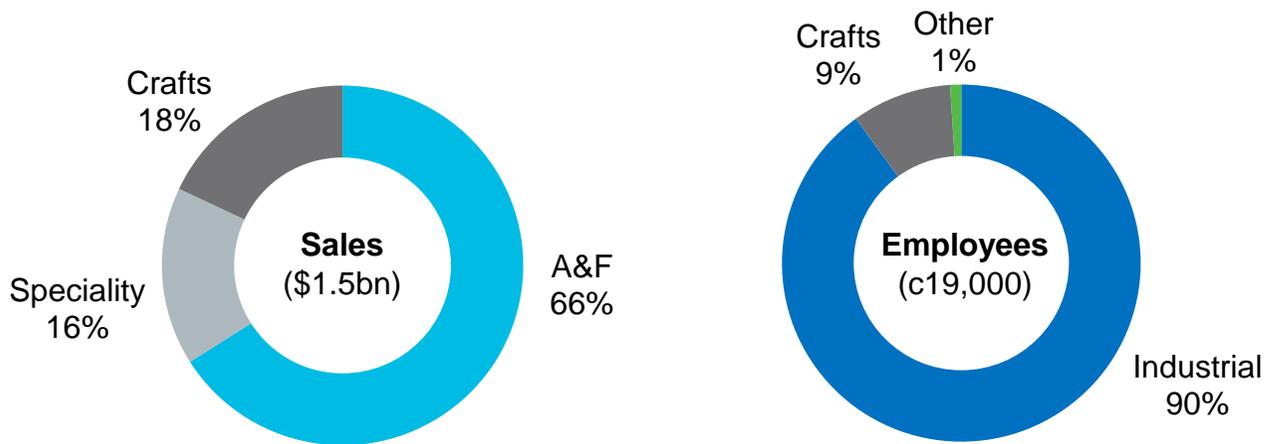


A nighttime photograph of a bustling city street, likely in Shanghai. The scene is filled with brightly lit buildings, many of which have large, colorful neon signs and billboards. The architecture is a mix of modern and classical styles. In the foreground, a large, semi-transparent blue rectangular overlay covers the lower portion of the image. The word "Overview" is written in white, sans-serif font on this overlay. The street is paved with light-colored tiles, and several people are visible walking across it. The sky is a deep blue, indicating dusk or night.

Overview

Who we are

World's leading industrial thread manufacturer and major player in Americas textile crafts



Group	2015 ¹
Operating profit growth	19%
Adjusted EPS growth	38%
Adjusted free cash flow	\$74m
Return on capital employed	33%

* See finance slides in appendix for more information

Where have we come from

Rich heritage

- Founded over 250 years ago
- One of the first truly global firms: started production in India in late 19th century and in China in the 1920s
- One of founding members of the FT30
- Under ownership of NZ based investment firm (Guinness Peat Group) from 2003-2014



Fast forward to 2015/16

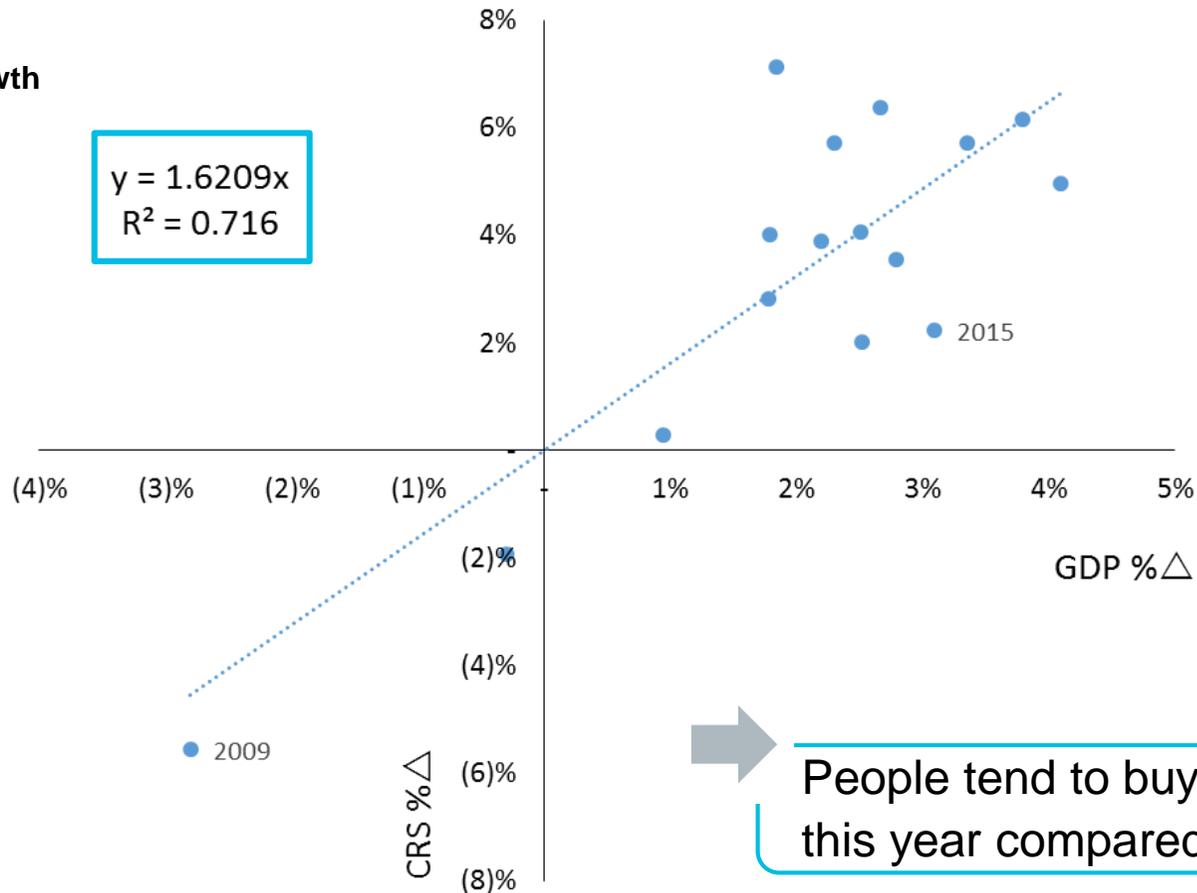
- Renamed Coats Group plc
- Return to LSE on 125th anniversary of listing
- Single Board of Directors
- First acquisition for >10 years
- Continuing to introduce new products/services
- Delisting from NZ and Australian exchanges (June 2016)

What drives our core business

Strong link between clothing retail sales and GDP growth.

For the US, clothing retail sales growth is approximately 1.6 times GDP growth

**US GDP growth vs
consumer retail sales growth
(2000-2015)**

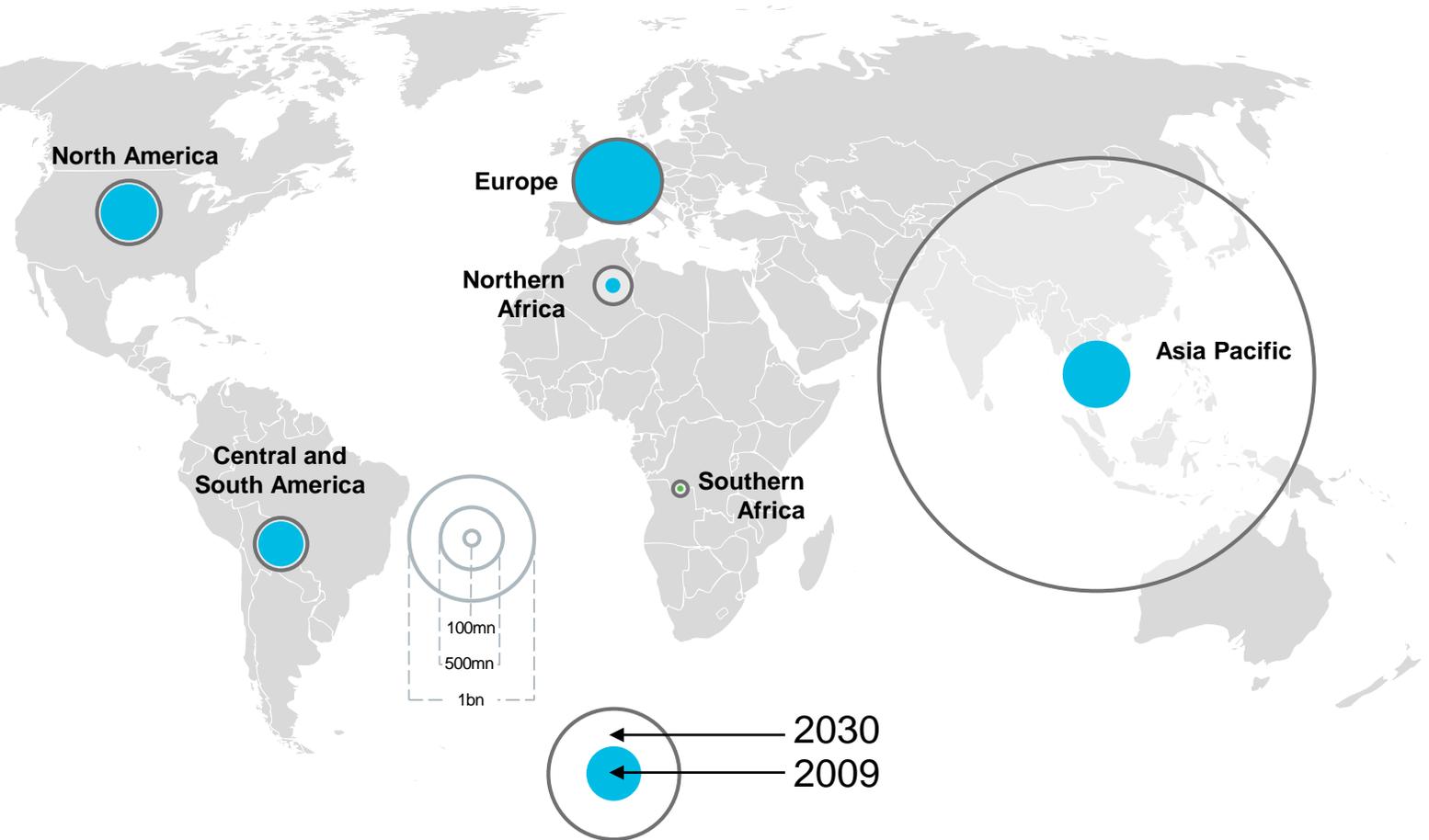


CRS: Clothing Retail Sales
Source: IMF, US Census Bureau

Global socio-economic trend to support future growth

Global middle class in 2009 and prediction for 2030

- ✓ Increasing global demand for **apparel and footwear**
- ✓ Increasing demand for consumer products with **Speciality** thread
- ✓ Asia Pacific moving from production base to world's **largest consumer market**;
- ✓ Asia Pacific will challenge developed economies in production of **high-end consumer goods**

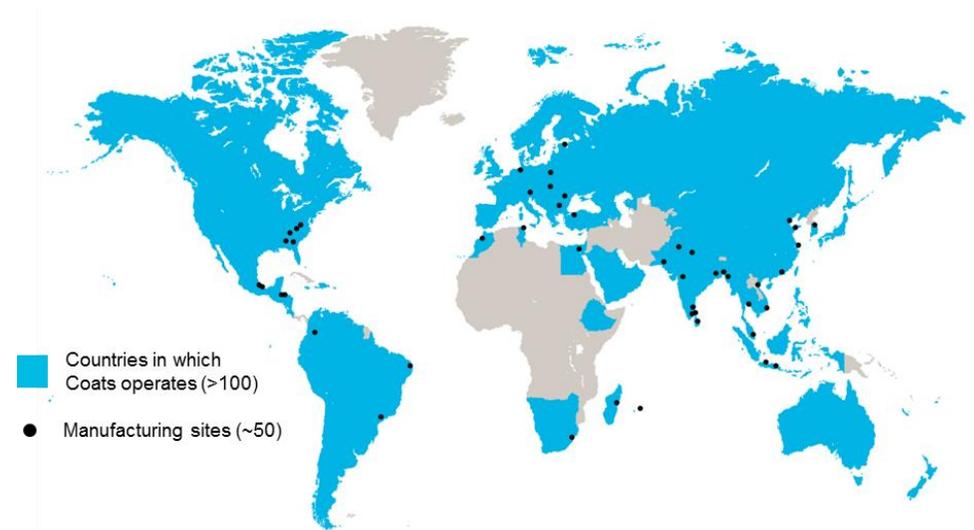


Source: OECD, Standard Chartered Research

Well positioned to take advantage and lead the industry

Strategic hand of cards

- **Market positions** that are several times bigger than our competition with a comprehensive range of products
- Unparalleled physical **global network** of factories, warehouses and IT systems; operate across six continents at ~50 sites, with a sales presence in +100 countries
- Access to the widest range of A&F, Speciality and textile craft **customers**
- Market leading **brands**
- ‘Human asset base’ with world-leading **expertise**, commitment, truly international capability and highly engaged
- Corporate brand **reputation**



Customers include



Brands include



Led by an experienced Board



Mike Clasper, CBE
Chairman



Paul Forman
Group Chief Executive



Rajiv Sharma
Global CEO, Industrial



Nicholas Bull
Senior Independent Non-Executive Director



Mike Allen
Independent Non-Executive Director



Ruth Anderson
Independent Non-Executive Director



David Gosnell
Independent Non-Executive Director



Alan Rosling, CBE
Independent Non-Executive Director



Stuart Morgan
Chief Legal & Risk Officer and Group Company Secretary

- Breadth of FTSE 350, geographic, industry and functional experience
- Share ownership across the Board and share based incentives for senior management
- Recruiting a new CFO (previous CFO left on 6 April)

Mike Clasper, Chairman

- Appointed in Feb 2014
- Chairman of Which?, SID at Serco and former NED at ITV; served as CEO of BAA and Chairman of HMRC

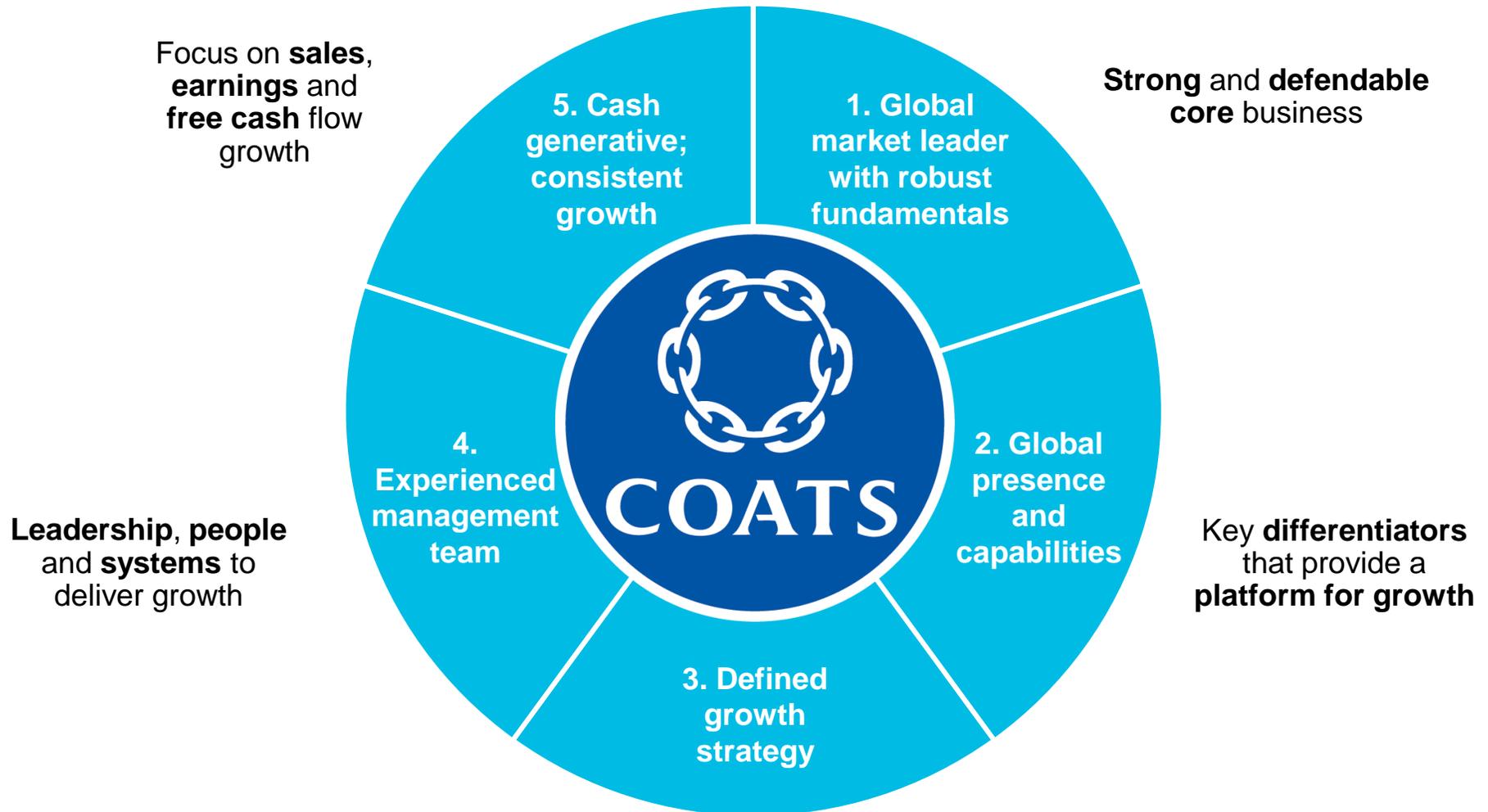
Paul Forman, Group Chief Executive

- Joined in Dec 2009
- Wide experience in global manufacturing, as well as strategy consultancy and M&A advisory
- NED at Tate & Lyle and former NED at Brammer; former CEO at Low & Bonar and MD at Unipart

Rajiv Sharma, CEO Industrial

- Joined in Nov 2010
- Experience across sales, marketing, M&A, business development and operations
- Previously worked at Westinghouse, Saab, Honeywell, GE and Shell

Five elements to our investment case



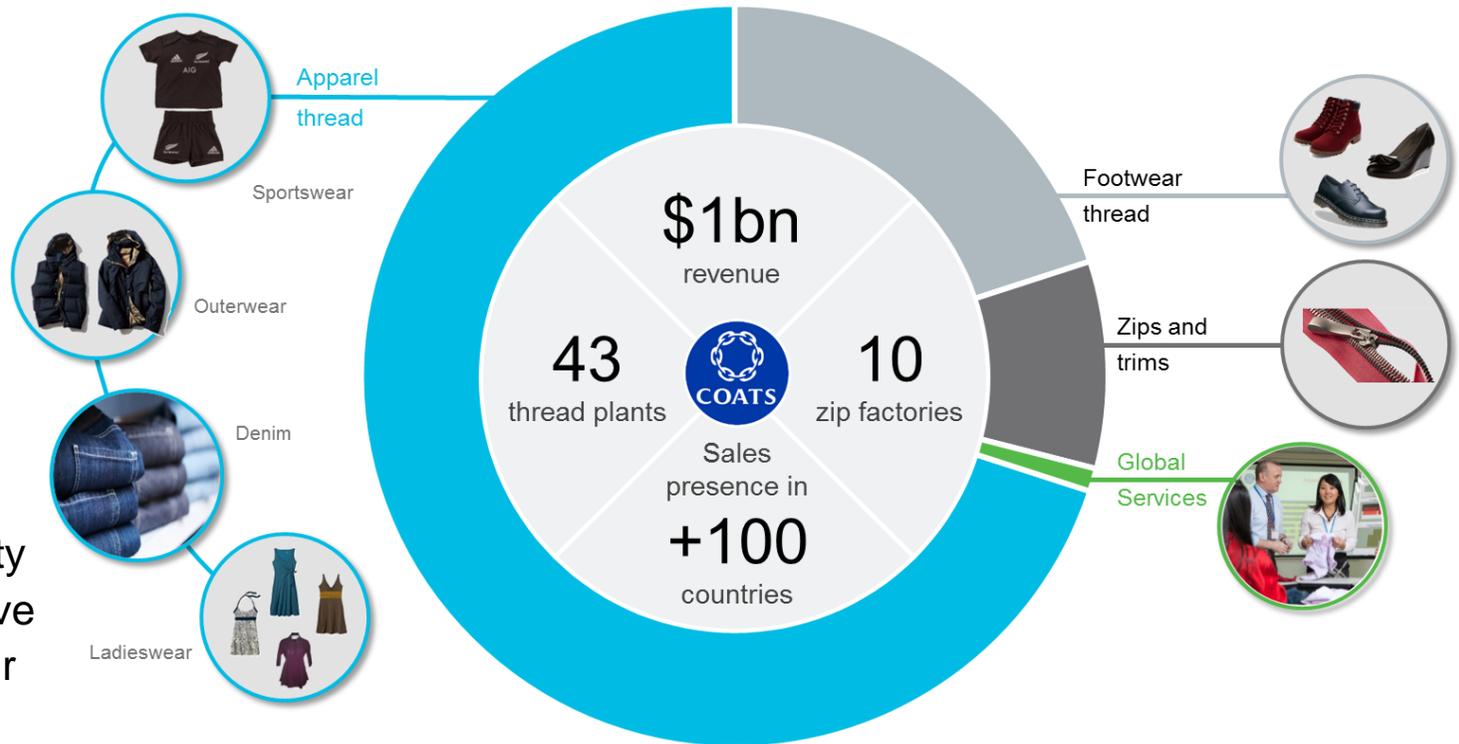
Targeting **known markets** through **organic** and **acquisitive** growth



Operations

A&F: the global market leader

- Key component supplier to growing \$1.5tn apparel and \$350bn footwear markets
- Global market leader in \$3.5bn A&F thread market: x3 larger than largest competitor
- Unparalleled global operational and commercial footprint
- Relationships with majority of global brands and sub-contractors to textiles industry
- Supply globally consistent, high quality threads in a responsive and responsible to our global customer base



Strong and defensible core business that is responding to changing industry needs

A&F: strong volume growth and digital innovation

Increased volumes

Share gains and underlying market growth

- Sales up 5% LFL to \$979m in 2015
- Double-digit sales growth in key markets - Bangladesh, Colombia, Mexico, Vietnam
- Growth with major brands - strengthened global accounts programmes
- Increased sales in major end-markets eg outdoor, denim and sports footwear



Digital innovation

Enhanced customer service and productivity



eCommerce

Rolled out Q1'15; now live in 25 markets with ~7,500 customers; accounts for ~50% of all orders



Coats Colour Express

World's fastest, most accurate thread sampling service

70% of all sampling now digital; 85% samples delivered within two days

Speciality: leading position in high growth markets

- Produce multiple innovative threads and yarns for non-apparel and footwear uses
- End-markets include automotive, bedding/furniture and oil and gas
- Moved beyond 'traditional core' by expanding into 'emerging' products and 'value added engineered yarns' (VAEY)

Traditional



Furniture

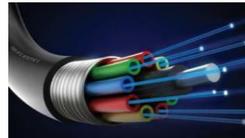


Airbags

Emerging



Tea-bags



Fibre-optics

VAEY



Flame retardant



Carbon composites

- Driven by growing consumer and government demand
 - Pace of urbanisation in developing countries (eg fibre-optic rollout)
 - Consumers purchasing more products with Speciality thread (eg femcare)
 - Consumers demanding more innovative products (eg wearable technology)
 - Increasing public sector spending and safety compliance (eg utility infrastructure)
- Speciality universe: ~\$30bn¹
- ~\$1.8bn¹ immediately addressable market

Speciality is a high value
'GDP+' market

(1) Universe and addressable market size based on third party report prepared for Coats and internal analysis

Speciality: geographic expansion and innovation

Geographic expansion driven by urbanisation in developing economies



Automotive

Double digit growth in key end-market in 2015



Bedding / mattresses

From quilting thread to aramid thread that meets flame retardant standards

New product innovation develop and manufacture clever thin lines



Conductive thread

Metallized thread antenna for use with revolutionary RFID tag



Carbon composites

In our state of the art carbon room, can twist carbon with other reinforced fibres like steel

- Sales up 8% LFL to \$233m in 2015
- Extending existing products into Asia and Latin America; China, India and Mexico all delivered double-digit growth
- Strong uptake in demand for new products such as engineered performance fabrics and wire and cable
- Supported by our **innovation approach**
 - apply **proven technologies** to threads and yarns to improve performance in existing applications and apply to new end uses
 - track record of delivering innovative, **high value add** products
 - use **virtual network** of commercial and academic partners and in-house R&D **capabilities embedded** at sites

Crafts: major player in Americas textile crafts



Handknitting



Foundation yarns



Fashion yarns



Needlecrafting and other



Embroidery



Zips



Sewing thread



Lifestyle fabrics



North America

- Leader in \$1.4bn market
- Focused channel and product portfolio
- Serve small number of major retailers ie 'Category Captain' at Walmart for past five years
- Inherently profitable, cash generative business

Latin America

- Leader in \$400m market
- Wider range of customers than in US
- Brazil main market with presence in other countries (eg Mexico and Columbia)
- Fluctuating demand in recent years

UK: small business retained

Crafts: refocused and stabilised in 2015

- Disposed of loss making EMEA Crafts business; now greater predictability of performance and Crafts management focus
- As expected overall sales down y-o-y due to lower demand for fashion handknitting products
- Double digit growth in expanding North American lifestyle fabrics business
- 6% growth in Latin American foundation handknittings
- Red Heart awarded prestigious Women's Choice Award® in the US for 2nd year in a row; and successfully launched brand in Latin America
- Digital inspiration: >4m free patterns downloaded from redheart.com, redheart.com now available in Spanish (to support growth in LatAm and Hispanic communities in the US), our Brazil Facebook surpassed 100,000 likes
- Full year 2015 margin up 90bps to 5.2%





Colour
at your fingertips



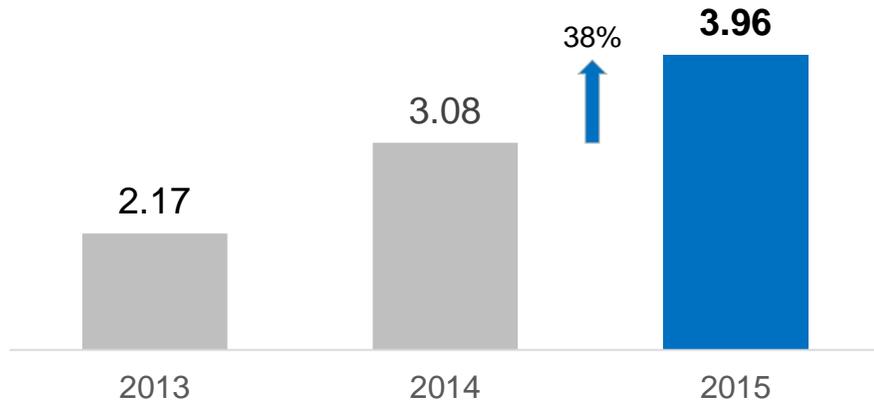
Financials

Colour
at your fingertips

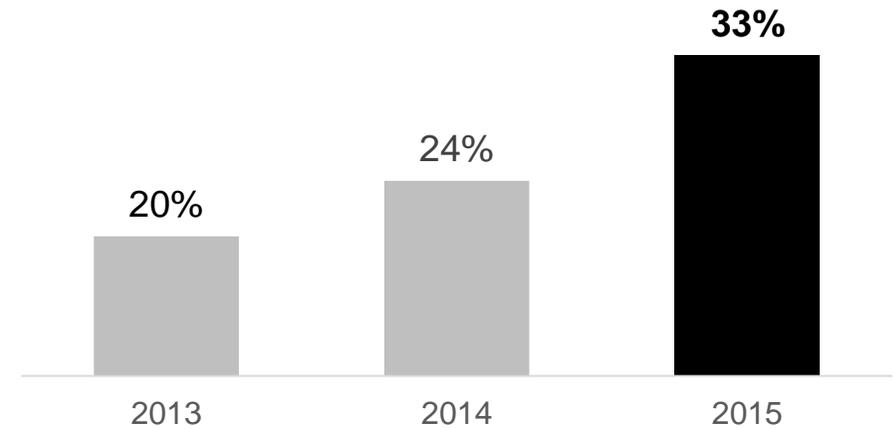
Colour
at your fingertips

Three year performance

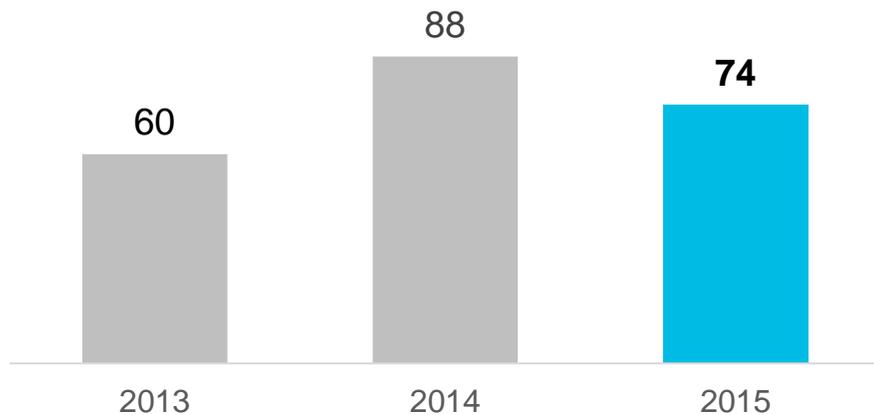
Adjusted EPS (US cents)



Return on capital employed



Adjusted free cash flow (US\$m)



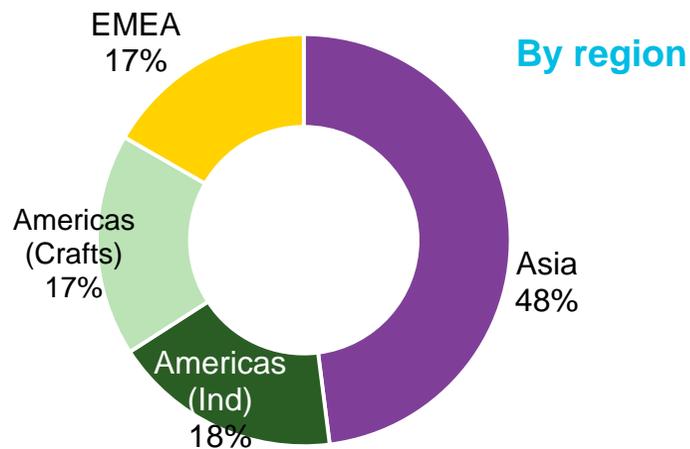
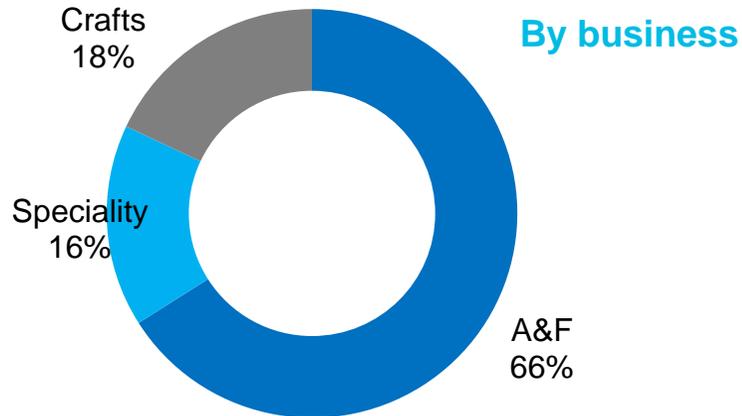
2015 financial performance ¹

	Industrial	Crafts	Group
Sales growth	5%	(6)%	3%
Operating profit growth	20%	14%	19%
Operating margin	11.1%	5.2%	9.4%

(1) See finance slides in appendix for more information

Revenue base

Group revenue 2015: ~\$1.5bn



Geographically diversified

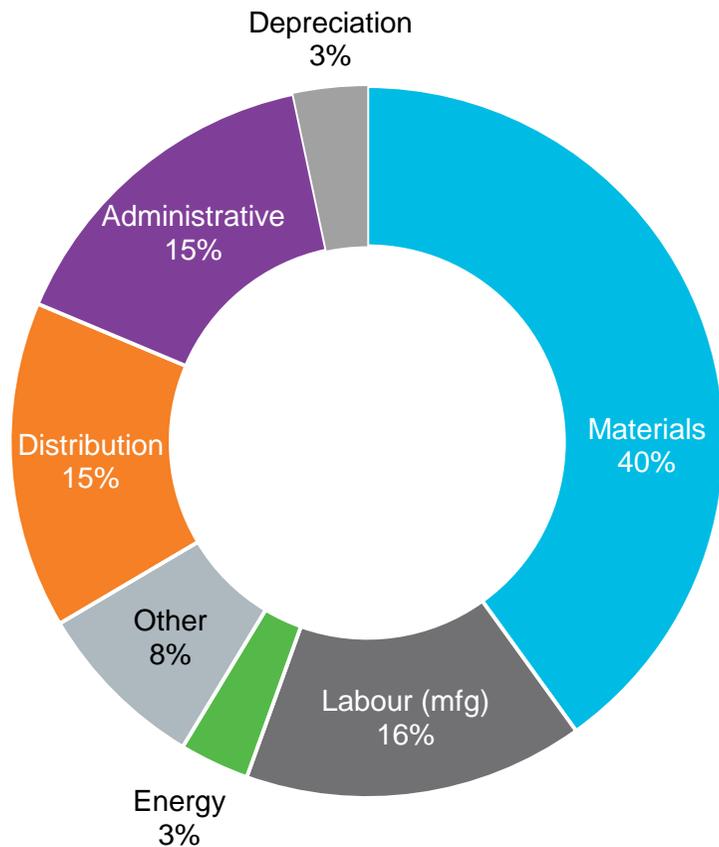
- A&F: largest markets are China, India and Vietnam
- Speciality: largest markets are US and Turkey; growing presence in Asia and LatAm
- Crafts: US, LatAm (mainly Brazil) and UK

Customer diversification

- No customer (contractor or Crafts retailer) accounts >10% of group sales
- No brand contributes to >10% of group sales

Cost base

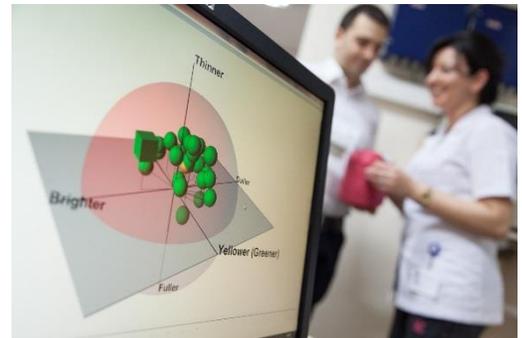
Pre-exceptional costs 2015: ~\$1.35bn



- Materials: raw materials (polyester, nylon, cotton) and intermediates (grey thread); direct materials (dyes, cones) and bought-in finished goods (craft products)
- Labour (mfg): ongoing inflationary pressures in the locations in which we operate
- Energy: sourced from local and national grids, price linked to regional supply / demand dynamics
- Other includes maintenance, insurance and water
- Distribution includes freight and warehousing
- Administrative includes corporate costs
- Capex at ~1x depreciation

Productivity, procurement and efficiency improvements

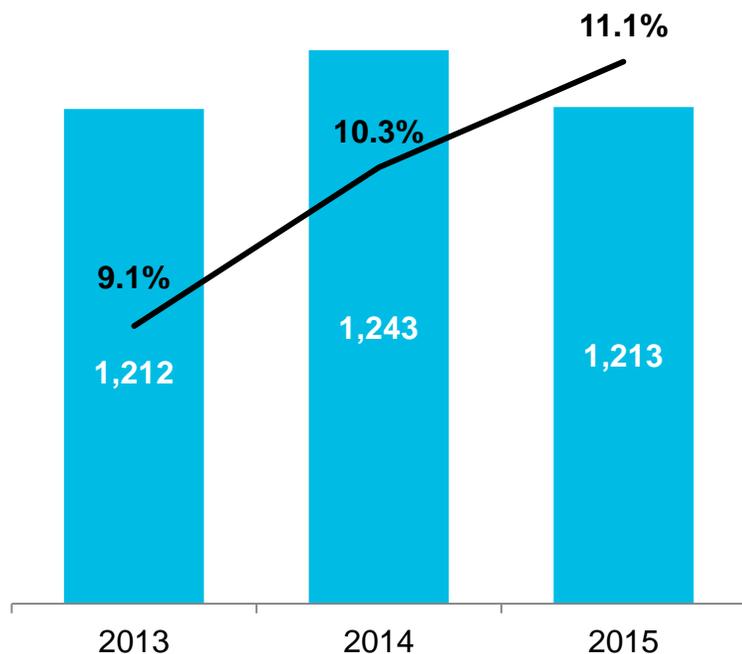
- To offset structural labour and energy inflation, look to deliver productivity, procurement and pricing gains
- However in general deflationary environment pricing becomes challenging
- Track record of delivering y-o-y manufacturing productivity and non-raw material sourcing gains: >\$17.5m in 2015
- Expanding our network of Lean and Six Sigma experts
- In 2015 y-o-y fossil fuel consumption down 7%, electricity usage down 6% and waste reduced 5%
- In 2015 sales per employee up 6%
- Overhead reduction programme: following disposal of EMEA Crafts reviewed cost structures; took \$14m provision in 2015 with benefits realised in H2 2015, 2016 and H1 2017



Segmental performance

Industrial

Revenue (\$m) Operating Margin (%)



111

128

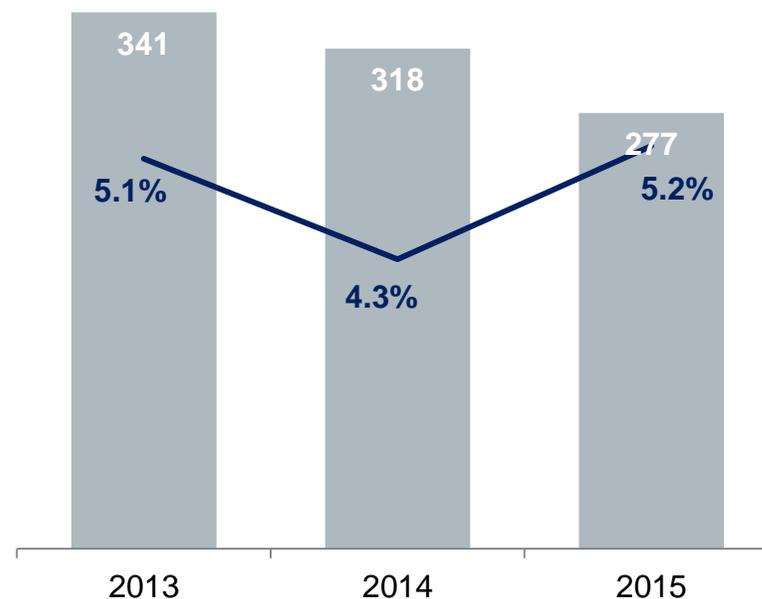
135

Operating Profit (\$m)

Revenue impacted by strength of USD;
good growth at constant exchange rates

Crafts

Revenue (\$m) Margin



17

14

14

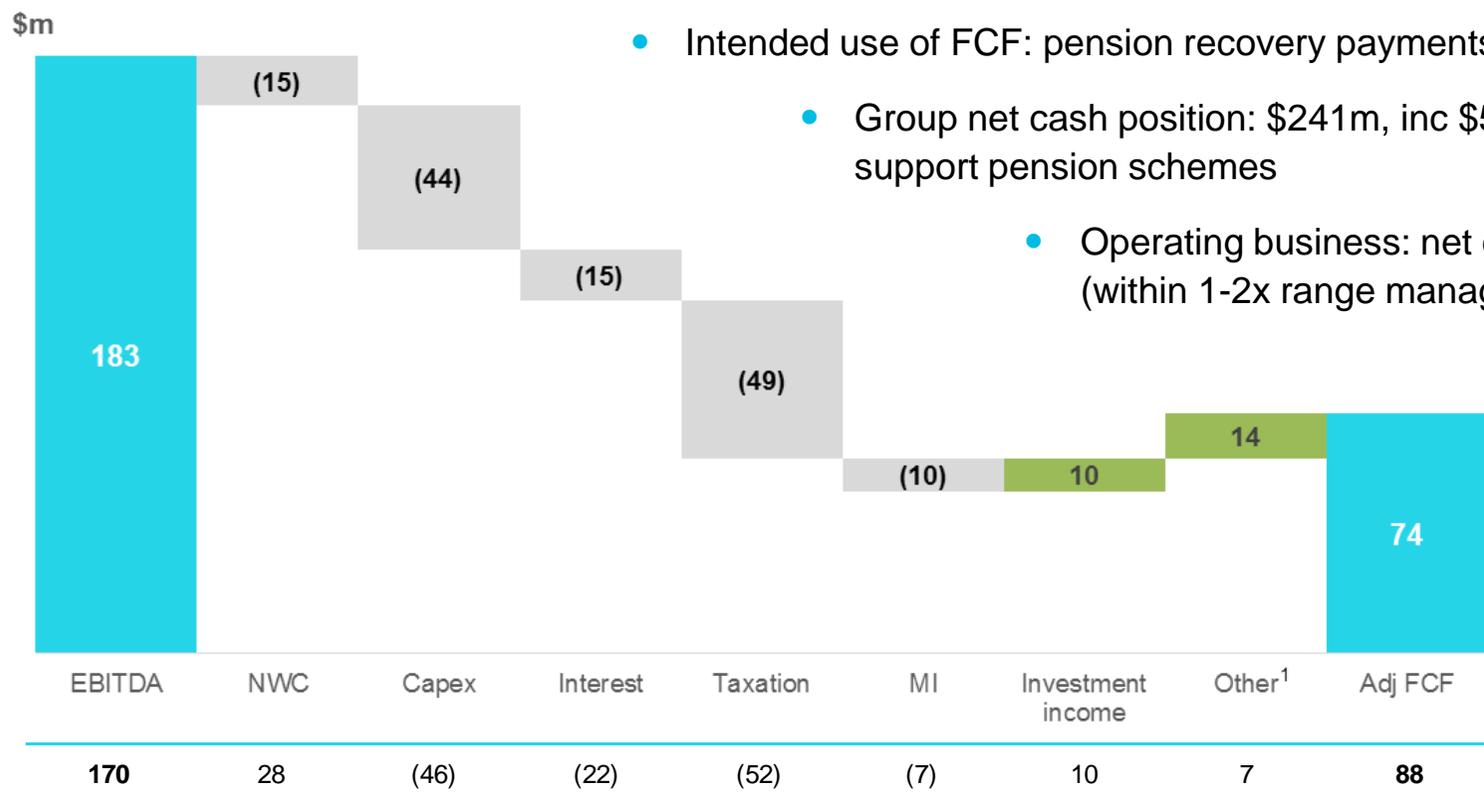
Higher margins in North America;
Latin America impacted by strength of USD

Cash flow and leverage

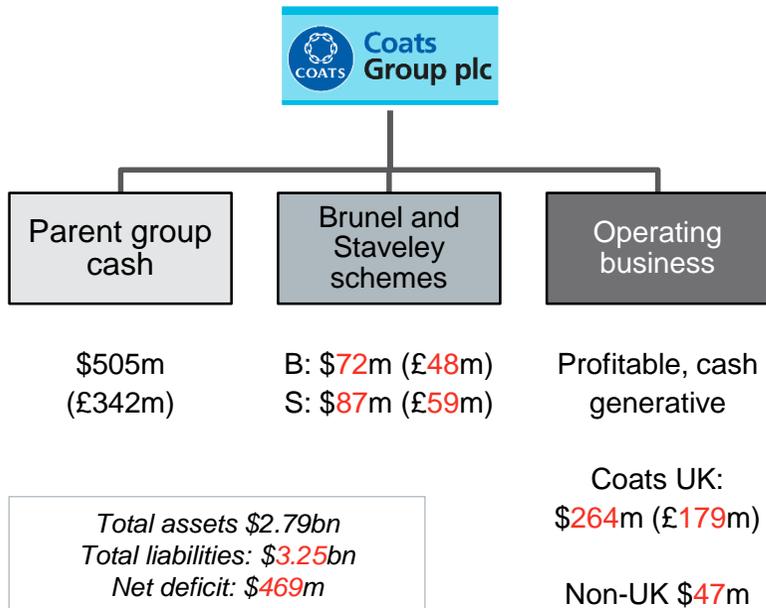
\$74m adjusted FCF (2014: \$88m)

- Net working capital (NWC) outflow due to revised supplier payment approach and increased trading activity (moderated by improved inventory management)
- More than offset increased profitability, maintaining capex at 1.0x depreciation, lower interest payments and tax paid due to declining rate
 - Intended use of FCF: pension recovery payments, acquisitions and dividends
 - Group net cash position: \$241m, inc \$505m parent group cash to support pension schemes
 - Operating business: net debt \$264m; 1.4x leverage (within 1-2x range management aim to operate)

2015 cash flow bridge



Pensions



Triennial valuations and recovery plans

- Brunel: agreed Nov'15 – TP deficit £94m; recovery plan £5.5m pa over 10 years
- Staveley: continue constructive discussions; believe TP deficit will be ~£100m
- Coats: ongoing - anticipate TP deficit will follow similar pattern; currently pay £14m pa

UK Pensions Regulator (tPR) investigations

- 2012/13: GPG Board began to distribute proceeds from asset realisation programme to shareholders
- Q2'13: tPR begins investigations into three UK DB schemes
- Dec'13: tPR issues Warning Notices (WN) on two legacy schemes - Brunel and Staveley
- 2014: reached settlement with one trustee on more than one occasion; not accepted by tPR
- Dec'14: WN received on Coats UK plan
- 2015: legal process and started Coats triennial process
- Feb'16: initiated settlement discussions with all trustees - committed to retain parent group cash and not return to shareholders on basis tPR withdraws WNs and Coats has ability to commence annual dividends and invest in growth
- Upfront support could be combination of direct and indirect; unknown level of ongoing support via recovery payments
- If settlement cannot be reached, prepared to litigate – next step is hearing before Determinations Panel of tPR, unlikely before H2'16 at earliest

A close-up photograph of several spools of thread. The central spool is in sharp focus and is a vibrant teal color. To its left is a blurred pink spool, and to its right are blurred purple and green spools. The background is dark and out of focus.

Summary

2016 outlook

- Strong performance in 2015 supported by market share gains, product innovation, lower input prices, productivity and procurement gains
- Put the business on a solid footing for the year ahead
- Will realise incremental savings from overhead reduction programme
- However to grow we need to reinvest to support our growth ambitions
- Furthermore against backdrop of mixed economic conditions (uncertainties in US and Western European consumer demand, demand from oil and gas industry and potential for US dollar to further strengthen) group performance could be adversely impacted
- On balance, Management expects to deliver modest y-o-y growth in Group pre-exceptional operating profit, with improvements to non-operating items further benefiting adjusted EPS

Role of M&A in delivering future growth

- Profitable sales growth over last five years driven purely by organic growth
- Looking to access inorganic growth
- In May'15 completed first acquisition in >10 years: GSD, a services business, for \$5.5m
- Comprehensive M&A process in place – from strategy to post merger integration

Criteria (includes)

- Aligned to Speciality, Services (eg GSD) or Asian geographic expansion in core A&F business
- Manageable risk profile
- Compliance with Coats standards
- Number of financial metrics (return and value)
 - looking for bolt-on transactions



No external limitations on executing M&A

Summary

- **Global market leader** with robust fundamentals; **strong** and **defendable core**
- Defined **growth strategy** and updated **market goals**
- Supported by **key differentiators** - world class asset base, product and service (including digital) innovation, highly engaged workforce and corporate responsibility
- Delivering **EPS growth** and **generating cash to reinvest in business**
- Healthy **acquisition pipeline** to complement organic sales growth and funded internally
- **Normalising as a UK plc** - move to single UK listing in 2016
- **Initiated settlement discussions** on UK pensions investigations
- **Well positioned** for continued sales, earnings and free cash flow growth



Appendices

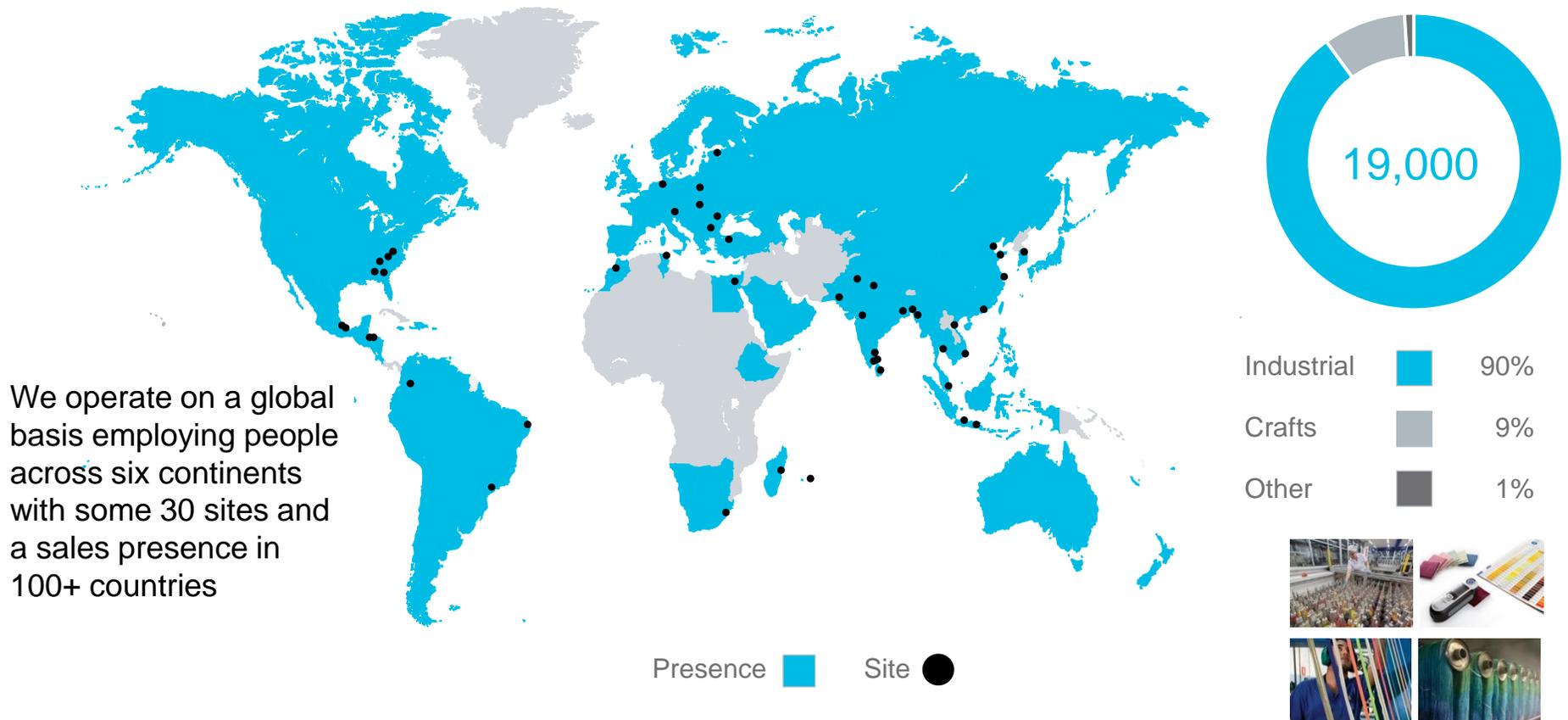
World leader with a global presence

Coats is the world's leading industrial thread manufacturer and a major player in the Americas textile crafts market...

Revenues of US\$1.5bn in 2015 – Headquartered in UK; LSE premium listing (COA)

Global footprint

Employees



Rich heritage

Coats is a company with more than 250 years of history

1750s

James and Patrick Clark began work in Paisley, Scotland



1812

Clark's sewing thread placed on the market



1826

James Coats establishes first Ferguslie mill in Paisley



1920s thread mill

1900s machinery



J&P Coats Sewing Cotton



London Stock Exchange 1891

1912

One of the world's largest companies by market capitalisation



1896

Coats and Clark family business merger forms: J. & P. Coats, Ltd

1890

Coats' initial share offering takes place on London Stock Exchange



1960s manufacturing



COATS VIYELLA

1980s-1990s

Period of manufacturing decline: Acquired by Vantona Viyella. M&A with Tootal, Barbour, and DMC



GUINNESS PEAT GROUP PLC

2004

GPG acquisition completed and company de-listed



London Stock Exchange

After a period of different owners Coats returned to the Stock Exchange in February 2015, 125 years after its initial listing.

2015

Coats Group plc returns to London stock market



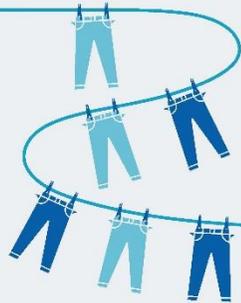
Did you know

Facts about Coats

Each year we make enough thread to go into over

8 billion

pairs of jeans – that's one for every person on the planet!



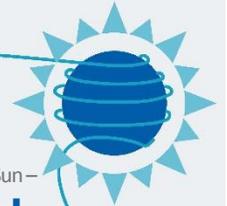
More than

100 million

car airbags are made using Coats' thread every year



Every month we produce enough thread to stretch all the way round the Sun –
that's six round trips a year



Our flame retardant Specialty threads can withstand temperatures as high as

1000°C



We're experts in colour. Last year we dyed thread and yarn in more than

150,000

different colours for our customers



Our long history includes

Thomas Edison

who used Coats' thread in his experiments in 1879 to invent the lightbulb



Servicing global markets and customers

End use applications

include



Industrial customers

A&F



BURBERRY

PRADA

Speciality



Crafts products

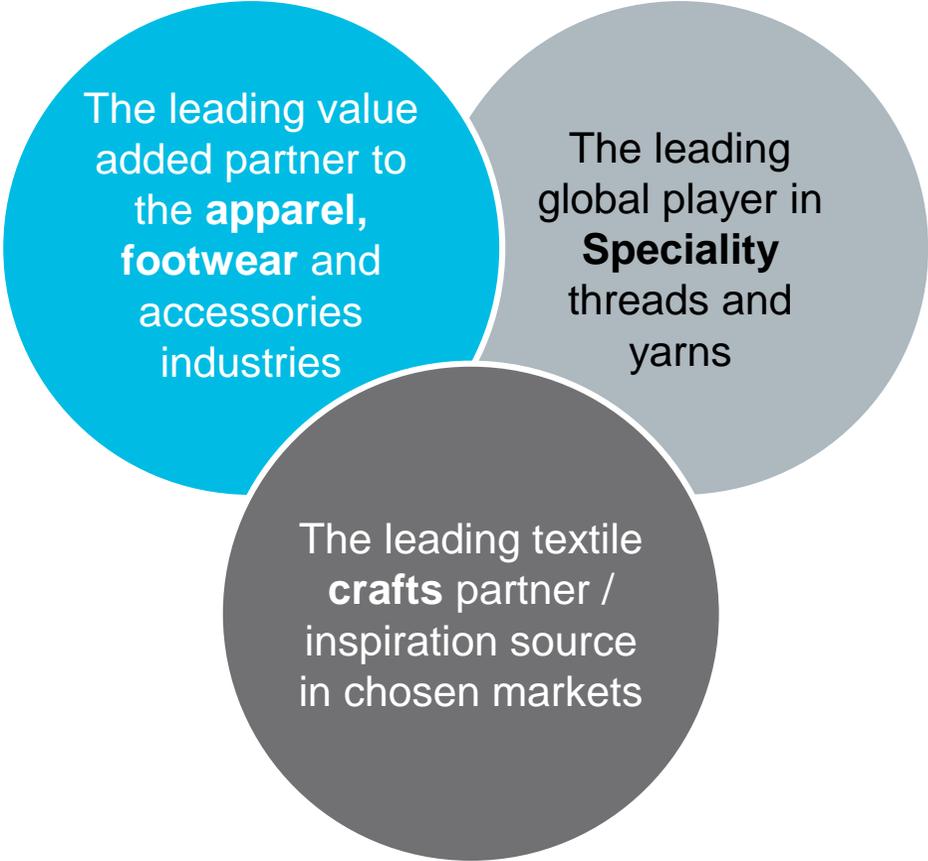
Products and brands include



COATS

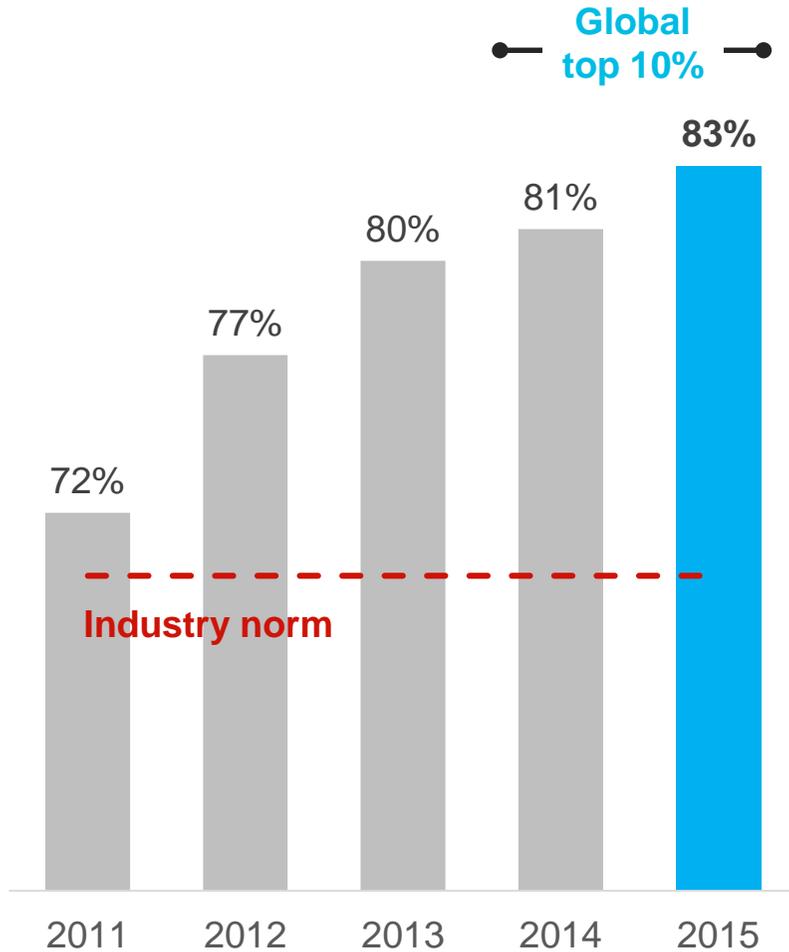


2018 market goals

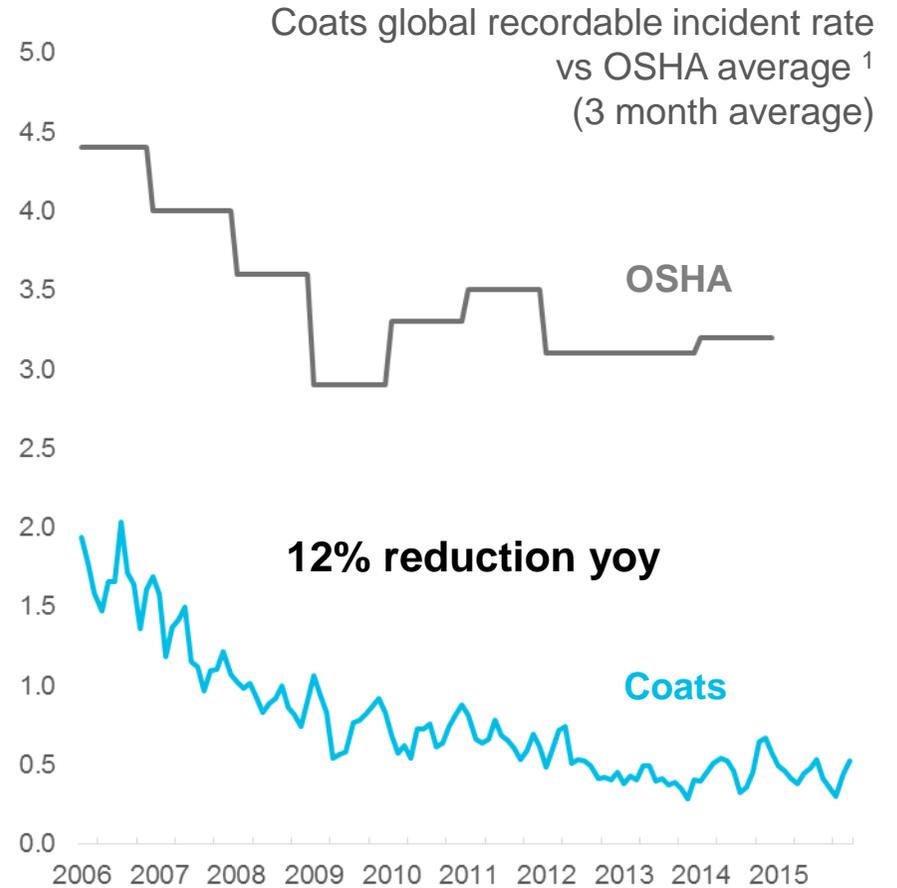


Safe and engaged workforce

Employee engagement



Recordable incident rate



(1) Occupational Safety and Health Administration, agency of US Department of Labor, average of US textiles mills

Corporate Responsibility

Our Corporate Responsibility (CR) programme is focused around seven strategic themes



For more information visit: www.coats.com/corporateresponsibility

2015 highlights

Strong operating performance and improved quality of earnings

- Pre-exceptional operating profit up 19% LFL (constant currency); operating margins up 130bps
- Adjusted EPS up 38% LFL; reported loss due to discontinued items
- Adjusted free cash flow of \$74m (2014: \$88m)
- Return on capital employed increased to 33% (2014: 24%)

Strategic progress

- Disposed of loss-making EMEA Crafts business and completed first acquisition (GSD)
- Good market share gains in Industrial

Highly engaged and safe workforce

- Recordable accident rate down 12%; employee engagement score 83% (in global top 10%)

Normalising as a UK plc

- Change of name, combined Board, UK focused share register, intention to delist from NZX and ASX
- Pensions investigations: initiated settlement discussions with Trustees of three UK schemes

2015 financial overview



\$m		FY 2015	Reported Change ¹	Like-for-like change ^{1,2}
Revenue		1,490	(5)%	3%
Operating profit	- reported	118	14%	
	- adjusted ³	139	13%	19%
EPS (cents)	- reported	(3.30)	NA	
	- reported continuing	2.09	(30)%	
	- adjusted ⁴	3.96	28%	38%
ROCE ⁵		33%	900bps	
Free cashflow	- adjusted ⁶	74	(16)%	

KPI

(1) Restated to reflect the change in accounting policies for presentation currency, operating profit and exceptional items and the results of EMEA Crafts business as a discontinued operation

(2) On a like-for-like basis restates 2014 figures at 2015 exchange rates

(3) Before exceptional items

(4) Before exceptional items and foreign exchange gains/losses on parent group cash balance.

(5) Pre-exceptional operating profit divided by capital employed. 2014: 24% including EMEA Crafts (27% excluding).

(6) Adjusted for exceptional items, acquisitions and UK pension recovery payments

Income statement

Adjusted EPS up 28% to 3.96c at actual currency (up 38% LFL):

- Gross margin up 120bps due to lower input prices, productivity and non-raw material procurement improvements
- SD&A%sales 20bps lower than prior year due to focus on operating costs
- 600bps improvement in underlying tax rate (see slide 23)

Increase in finance costs due to \$19m FX gain on parent group cash in 2014 (slide 22)

Attributable loss of \$46m driven by:

- \$23m of exceptional items (see slide 21)
- \$76m charge related to sale of loss-making EMEA Crafts (see slide 25)

\$m	2015			2014		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Revenue	1,490	-	1,490	1,561	-	1,561
Gross Profit	561	(10)	551	568	-	568
SD&A	(421)	(12)	(433)	(445)	(20)	(465)
Operating profit	139	(22)	118	123	(20)	103
Share of profit of JVs	1	(1)	-	2	-	2
Finance costs	(31)	-	(31)	(8)	-	(8)
Profit before tax	110	(23)	87	117	(20)	97
Tax	(46)	0	(46)	(45)	(0)	(45)
Profit after tax	64	(23)	41	72	(20)	52
Loss from discontinued operations	(13)	(63)	(76)	(8)	(19)	(27)
Profit / (Loss) for the period	51	(86)	(35)	64	(39)	25
Minority interest	(11)	-	(11)	(10)	-	(10)
Attributable Profit / (Loss)	40	(86)	(46)	54	(39)	15
EPS (cents) - reported			(3.30)			1.06
EPS (cents) - reported continuing			2.09			3.00
Adjusted EPS (cents)			3.96			3.09

Finance costs and foreign exchange movements

Operational

- \$3m reduction in interest due to lower cost of local financing and end of fixed interest rate swaps
- \$3m increase in investment income primarily related to compensation received in respect of an historical compulsory state financing arrangement in Latin America

Parent group

- Interest income lower due reduced rate GBP/USD vs NZD/AUS rate and parent group cash balance
- \$3m FX loss (2014: \$19m gain) on parent group cash driven by movements between GBP, NZD and AUD; cash now held in GBP

Pensions

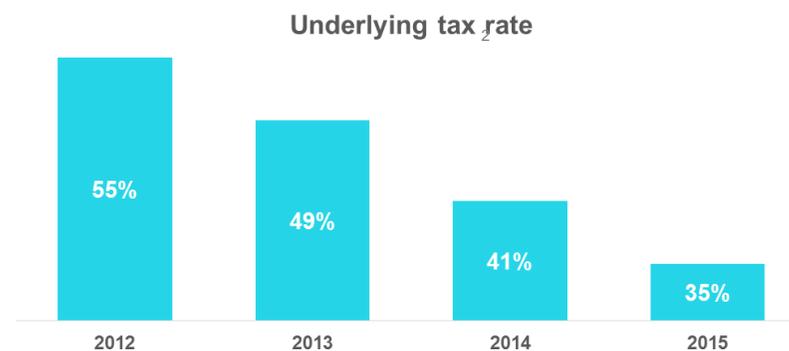
- \$6m increase in IAS19 pensions interest charges due to higher deficit at end of 2014

\$m	2015	2014
Operational items		
- Interest on bank and other borrowings	(17)	(20)
- Investment income from operating activities	5	2
- Other	(4)	(6)
Total operational items	(16)	(25)
Parent Group		
- Investment income on parent group cash	5	9
- FX (losses) / gains on parent group cash	(3)	19
Total group items	2	28
Pension finance costs	(17)	(11)
Total finance costs	(31)	(8)

Taxation

- Reported tax rate 53%
- Underlying tax rate (UTR)¹ reduced by 600bps to 35%
 - Change in mix as regions with lower statutory tax rates contributed higher profits
 - Reduction in unrelieved losses and withholding taxes suffered
- UTR has been reduced 20 percentage points in the last four years
 - Benefits EPS and free cash flow
- Tax cash outflow in 2015 of \$49m, 38% of adjusted PBT³ (2014: 48%)

\$m	2015			2014		
	Tax	PBT	%	Tax	PBT	%
As reported	(46)	87	53%	(45)	97	47%
Exceptional items	(0)	22		(0)	20	
JV impairment	-	1		-	-	
FX losses on parent group cash	-	3		-	(19)	
Pension interest IAS19	0	17		-	11	
Underlying tax rate	(46)	130	35%	(45)	109	41%
Cash outflow	(49)		38%	(52)		48%



(1) Pre-exceptional items, IAS19 interest and foreign exchange gains/losses on parent group cash
 (2) 2012 and 2013 rate based on Coats operating business (as previously reported). 2014 and 2015 based on Coats Group basis
 (3) Adjusted for exceptional items

Discontinued - EMEA Crafts

- Loss of \$76m in related to sale of loss-making EMEA Crafts business
- \$13m related to trading loss generated for the year (2014: \$7m pre-exceptional loss)
- Loss on disposal of \$56m included:
 - \$17m cash retained in the business and \$37m net working capital sold
 - \$14m of other assets and liabilities, including \$12m disposal related costs and completion adjustments
 - Partly offset by \$12m of pensions and other liabilities transferred to buyer
- Net exchange loss of \$7m
- \$24m loss recognised in H2 (H1: \$52m) included additional trading losses, disposal related costs, completion adjustments and net exchange loss

\$m	2015	H1	H2
Trading loss	(13)	(6)	(7)
Cash retained in the business ¹	(17)	(17)	-
Net working capital	(37)	(34)	(3)
Pensions and other provisions	12	12	-
Other assets and liabilities ²	(14)	(7)	(7)
Loss on disposal	(56)	(46)	(10)
Historic exchange losses	(7)	-	(7)
Loss from discontinued items	(76)	(52)	(24)

(1) Includes cash of \$2m payable to buyer after 31 July completion

(2) Includes disposal related costs and completion adjustments

Non-operating items

US environmental - Lower Passaic River (LPR), New Jersey, USA

- US Environmental Protection Agency (EPA) notified Coats, and many other companies, of potential responsibility for certain historical environmental costs on a 17 mile stretch of the LPR
- In 2015 a Cooperating Parties Group (CPG), of which Coats is one of ~55 members, submitted a remedial investigation and feasibility study (RI/FS) of the entire 17 miles with an estimated cost of \$518-772m (undiscounted); consequently in H1'15 Coats recorded a \$6m charge, net of insurance
- In March 2016 the EPA issued a Record of Decision selecting a remedy for the lower 8 miles at an estimated cost of \$1.38bn (NPV) - did not include a remedial decision for the upper 9 miles; consequently Coats recorded an additional \$6.8m charge
- Coats believes it did not generate any contaminants which are driving remedial actions, it has valid legal defences, it is a de minimis party and additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs
- Negotiations among parties and with the EPA, remedial design and implementation of remedial action are expected to take more than 10 years
- Additional revisions may be appropriate depending on future developments

Financing

Refinanced debt facility (February 2015)

- Facility oversubscribed
- Margin reduced by ~25bps
- Changed group of international banks – better reflects Coats’ global footprint
- Reduction in facility size by \$40m reflects Coats’ ability to generate free cash

Interest and leverage

- Interest rate risk - hedge floating rate exposure with swap contracts
- Group: net cash position: \$241m
- Parent group cash: \$505m (£342m) – retained to support pension schemes
- Operating business: net debt \$264m; 1.4x leverage (within 1-2x range management aim to operate)

Key terms and features

Size	\$680m
Maturity (date)	5 years (Feb 2020)
Margin structure	Margin dependent on financial leverage
2015 pricing (indicative)	LIBOR +150bps
Leverage covenant	Net debt / EBITDA \leq 3x
Interest cover	EBITDA / net finance charges \geq 4x

Operating business (\$m)	2013	2014	2015
Interest charge	24	20	17
Net Debt	329	263	264
Leverage ratio	1.8x	1.5x	1.4x

Pension schemes

31 Dec	Brunel		Staveley		Coats UK		RoW schemes		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<i>\$m</i>										
Assets	162	176	253	282	2,138	2,388	235	274	2,787	3,121
Liabilities	(233)	(260)	(339)	(372)	(2,402)	(2,722)	(274)	(324)	(3,249)	(3,679)
Net deficit	(72)	(84)	(87)	(90)	(264)	(334)	(39)	(50)	(462)	(558)
Unrecognised asset	-	-	-	-	-	-	(8)	(26)	(8)	(26)
Net deficit recognised	(72)	(84)	(87)	(90)	(264)	(334)	(47)	(76)	(469)	(584)
<i>£m</i>										
<i>Equities</i>	30	55	38 ¹	86	496	469			526	610
<i>Bonds</i>	56	55	108	91	835	914			1,062	1,060
<i>Other</i>	24	3	25	4	119	151			143	158
Total assets	110	113	171	181	1,450	1,534			1,731	1,828
Liabilities	(158)	(167)	(230)	(239)	(1,629)	(1,748)			(2,017)	(2,154)
Net obligation	(48)	(54)	(59)	(58)	(179)	(214)			(286)	(326)
Discount rate (%) ²	3.60	3.35	3.60	3.35	3.60	3.35				
Inflation (%) ³	2.95	2.95	2.95	2.95	2.95	2.95				
Rate of increase in pensions in payment (%)	2.85	2.85	2.85	2.85	2.85	2.85				
Life expectancy	26.1	26.3	25.4	25.7	25.6	25.7	For male retiring today at 60			
Increase in real discount rate to eliminate deficit (bps) ⁴	345	390	250	250	140	160				

(1) Equity exposure achieved through derivative contracts with current market value of £(2)m

(2) Assumption derived using a yield curve approach, based on Sterling AA corporate bonds

(3) Assumption based on a market implied long-term rate of inflation

(4) As at 31 Dec 2015, assumes an immediate increase across all points on the yield curve and includes an estimate for the impact on the value of corporate bonds in the scheme assets



Coats
Group plc

For more information

Jaideep Thatai
Head of Investor Relations
+44 20 8210 5086
jaideep.thatai@coats.com

Coats Group plc
www.coats.com