Financial highlights

	2001	2000 Restated
Turnover		
– continuing operations	**£1,213m**	£1,262m
– total	**£1,247m**	£1,596m
Operating profit before exceptional items		
– continuing operations	**£69m**	£95m
– total	**£68m**	£87m
Operating profit	**£36m**	£50m
Operating profit less net interest payable	**£26m**	£31m
Pre-tax profit/(loss)	**£23m**	(£31)m
Earnings/(loss) per share	**1.4p**	(9.0)p
Headline earnings per share	**2.8p**	3.9p
Dividends per share		
2001 Interim	**1.50p**	1.50p
2001 Final	**1.50p**	1.50p
Net asset value per Ordinary share	**75p**	77p
Capital expenditure	**£55m**	£52m
Net debt	**£128m**	£148m
Net debt less current asset investments	**£104m**	£128m
Net gearing	**21%**	23%
Net cash inflow from operating activities	**£87m**	£73m
Net interest cover (operating profit)	**3.5**	2.5
Market Capitalisation at 31 December	**£333m**	£271m

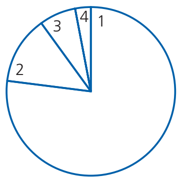
Note

2000 comparatives have been restated following the adoption of FRS17 – Retirement Benefits. The full impact is reflected in note 29 to the accounts.

Coats plc at a glance

Group sales (£1,213 million)

Our core business is thread. With 22% global market share and operations in 63 countries we are the clear market leader.

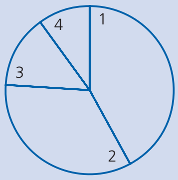


1 Thread 77%
2 Fashion Retail 13%
3 Bedwear 7%
4 India Textiles 3%

Thread

Thread sales (£938 million)

The thread business is broken down into four segments: apparel sewing thread, speciality thread, zips/trim and crafts.



1 Apparel sewing thread 42%
2 Crafts 34%
3 Speciality thread 14%
4 Zips and trim 10%

Apparel sewing thread

Coats thread is an integral part of every article of clothing – from shirts to suits and designer wear to protective workwear, our thread is preferred by the world's leading brand owners, retailers and manufacturers.

From high performance corespun to general purpose spun polyester thread, our international product range for apparel sewing is available worldwide. Our Global Offer is supported by Coats Sewing Solutions, a suite of value adding services designed to enhance quality and productivity.

Speciality thread

Coats has, by far, the most comprehensive product range catering to the needs of a multitude of industries – footwear, mattresses, quilting, automotive, outdoor and camping goods, furniture and filtration to name a few.

Our manufacturing expertise and extensive experience in servicing the needs of international customers are unmatched by competitors. These assets were further enhanced by the acquisition of Barbour Threads whose expertise in threads for special applications dates back to 1784 when its first linen mill was established in Northern Ireland.

Zips/trim

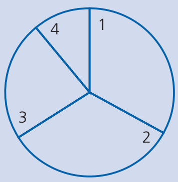
Under the Opti brand, Coats offers a wide range of zips suitable for all kinds of industrial applications in the apparel and speciality sectors, as well as for craft and home sewing usage. The Opti range of zip fasteners is backed by in-house technology.

Crafts

The Crafts segment includes products for home sewing, embroidery, crochet and knitting, and aims to fulfil creative, leisure and utility needs of consumers. We support development of needlecrafts and artistry worldwide through sponsorships, training and award programmes.

Internationally renowned brands such as Anchor and Red Heart are part of a long established Coats tradition of products and creative ideas that have brought enjoyment and satisfaction to generations of craft enthusiasts.

Thread sales by region



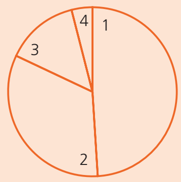
1 Europe 33%
2 North America 33%
3 Asia 23%
4 South America 11%

We have manufacturing facilities in 43 countries worldwide and recently opened new factories in the Dominican Republic, Madagascar and Romania.

Fashion Retail

Fashion Retail sales (£156 million)

Fashion Retail has two brands, Jaeger and Viyella. The British designed collections are sold through 450 outlets across 15 countries.



1 Jaeger UK 49%
2 Viyella 33%
3 Jaeger International 14%
4 Other 4%

Jaeger

British designed men's and women's clothing and accessories sold through own outlets and leading department stores.

The vision is to be one of the leading British brands recognised globally for elegant modern style.

The target consumer is a confident, independent and professional individual looking for classic clothing with a touch of luxury, sophistication and glamour.

Jaeger is represented internationally through a range of branches and shop-in-shop operations in North America, together with licensing, franchising and wholesaling in the rest of the world.

Viyella

Co-ordinated collections of British designed womenswear and accessories.

Viyella is for women seeking high quality clothing with smart, classic and versatile styling.

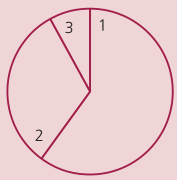
The brand is currently broadening its product offer to include more casual styling to better reflect its consumers' changing lifestyle.

Product is sourced from a range of specialist, high quality, competitive manufacturers.

Bedwear

Bedwear sales (£87 million)

Bedwear operates through the Dorma and Vantona brands and also supplies products for retailers' own brand ranges.



1 Dorma/Vantona 60%
2 Own brand 32%
3 Other 8%

Dorma/Vantona

Dorma is the UK's market leading bedwear brand. Sold through leading department stores and high quality independent retailers it is targeted at the premium priced sector of the market and offers the style conscious consumer a comprehensive range of co-ordinated bed linen and accessories. The success of the brand is supported by its 150 store concession operation centred around Debenhams and House of Fraser and has been recognised by the award of 3 Royal Warrants. The Vantona brand is targeted at a younger and more price conscious consumer and has recently enjoyed considerable success through a licence programme with the designer Laurence Llewelyn-Bowen.

Own Brand

The Bedwear operation also supplies bedwear ranges to leading high street chains and department stores under their own labels. It remains the biggest single supplier of bedwear to Marks & Spencer and is also a significant supplier to Laura Ashley, Debenhams and BhS.

Chairman's statement

Group structure

The change of the Group's name, in May last year, to Coats plc – the historic brand name of our thread business – effectively summarised the Group's restructuring begun the previous autumn. 2001 saw the Group complete the sale of or withdrawal from almost all non-core activities to create a company whose future is focused around the global thread business. Thread now represents nearly eighty per cent of the Group's turnover.

Overall performance

Real strategic progress in restructuring the Group was partly masked in 2001 by difficult trading conditions. Nevertheless, in a year of general economic weakness, and unprecedented downturn in the North American apparel industry, Coats proved its resilience worldwide, at a time when others in our own industry have experienced serious setbacks Coats has maintained market share and improved cash flow.

In the Thread business, management has concentrated on strengthening its competitive position by building on relationships with key global customers, reducing the cost base and enhancing service capability in low cost locations. Although much remains to be done, we emerge from the end of 2001 better focused, with a stronger balance sheet and well placed to take advantage of any upturn.

Board changes

The Group's restructuring, and the end of a period of intensive change, prompted the establishment of a more conventionally structured Board. Martin Flower was appointed Group Chief Executive in March and Jonathan Lea was appointed Group Finance Director in April. Kazia Kantor and Mike Hartley left the Group and Lord Owen and Noel Goutard retired from the Board. Bryan Anderson, Chief Operating Officer of the Thread business was appointed to the Board on 1 January 2002. I am confident that this management structure provides a platform to deliver shareholder value.

Share Plans

In order to focus on the successful implementation of our business strategy we shall be proposing at the AGM to introduce new approved and unapproved share option plans and a performance share plan. These plans will reward only high performance and the creation of value for shareholders. Details of the proposed new plans are described in the Report on Directors' Remuneration and the Notice of Annual General Meeting contains resolutions to adopt such plans and detailed appendices summarising the principal features.

Pension Plan

In accordance with best accounting practice, we have adopted FRS17 in our 2001 Accounts. I wish to reassure all members of the UK Pension Plan that the Plan continues to enjoy a healthy surplus.

Dividend

The Board is pleased to recommend a final dividend of 1.5p which remains the same as for last year.

The future

We are confident that the decision to focus on Thread will deliver long term growth in shareholder value and this confidence is reflected in the maintained dividend and increased investment in 2001 despite adverse short term trading conditions.

Finally I would like to thank all our 37,000 employees worldwide who have worked extremely hard during the past year.

Sir Harry Djanogly CBE Chairman

Martin Flower
Group Chief Executive

2001 has been a tough year – but we believe we now have the right strategy, skills and people to grow the business.

2001 Operating performance

2001 has been a tough year with the general economic environment, unprecedented downturn in the US apparel industry and major changes in group structure all adding up to a serious management challenge. In the circumstances, we believe the profits and cash flow achieved demonstrate the resilience of the core business. Detailed comments on performance are contained in the operating reviews, but it is clear that the Thread business was severely impacted by an exceptionally large stock reduction at all stages in the US apparel supply chain. The other notable impact on results was the decline in demand at Jaeger following 11 September. Action was taken in both areas to reduce the cost base. Other parts of the Thread business delivered improvement in performance and both Bedwear and Viyella continued to deliver a steady profit performance.

Strategic progress

Within the business we recognise the need to improve profitability and restore organic growth without undue dependence on general economic recovery. During 2001, despite the difficult trading environment, we made strategic progress in several areas which will provide the foundations for future growth. One of the key steps was the creation of a more appropriate management structure including the appointment of Bryan Anderson as Chief Operating Officer, Thread. There was substantial progress on the disposal of non-core businesses and we start 2002 with much clearer focus.

Core business strategy – positioned for growth

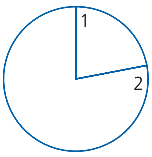
Within the textiles sector, our Thread business is uniquely positioned for growth. As our customers become more global, our worldwide organisation, relative size and product offer create strong competitive advantage. Over 80% of North American and Western European consumption of clothing and footwear is now supplied from lower cost regions and a further phase of migration is expected over the next few years as clothing businesses position their sourcing and manufacturing in anticipation of the phasing out of textile and apparel quotas by 2005. As the only sewing thread manufacturer able to offer a comprehensive product range which can be manufactured to customer specifications in all of the key low cost markets, global trends in textiles, apparel and footwear can be turned to our advantage with our size also bringing advantage in raw material purchasing. In addition, the Barbour acquisition has opened up a whole new segment of speciality threads.

Optimising the supply chain

Although our strong relationships with customers in Western markets remain a key competitive advantage, the corresponding thread production capacity in the EU and US has become less appropriate. The need for Coats to follow its customers by investing in new plants in low cost markets such as China whilst simultaneously incurring reorganisation costs in downsizing Western capacity has been a dominant feature of our results for some

Thread

Market share



1 Coats 22%
2 Others 78%

The global thread market is worth £3.8 billion. Coats has a 22% share.

Low cost production

80%

Over 80% of North American and Western European consumption of clothing and footwear is now supplied from lower cost regions.

Our aim is to exploit the advantages of our unique global position to generate solid and sustainable returns.

years. Much progress has already been made with the relocation of upstream spinning capacity from Western Europe and the US to lower cost locations. However optimisation of the global supply chain is expected to take another three years. Over this period, reorganisation costs are expected to total around £50 million pre-tax. Thereafter, although it is unlikely that apparel migration will totally cease, the cost of keeping up with customer moves is expected to be significantly lower.

The optimisation of our supply chain will extend our lead as the lowest cost international producer and ensure that our service capability remains well ahead of competitors. Combined with the opportunities created by changing markets, we believe we are well placed to deliver sustained improvement in shareholder value.

Marketing initiatives beginning to deliver results

The migration of apparel and footwear manufacture has been accompanied by increased interest from retailers and brand owners in tighter control of component specification as their supply chain becomes more complex. In response, our global key account programme was launched in 2000 with the objective of securing supply partnerships with the world's largest brands. So far we have entered into supply partnerships with 37 major global retailers or brand owners. New partnerships struck in 2001 include American Eagle Outfitters, Haggar Clothing Company, Sears, Next, French Connection, Liz Claiborne Kids, Saks Fifth Avenue Enterprises and Nike.

We continue to invest in innovative services for key customers, building on a global offer for thread product which assures uniformity of quality, shade range, appearance and sewing performance, wherever the customer chooses to source or manufacture. The Coats Sewing Solutions programme is designed to provide an array of additional services, aimed at improving garment quality and shop floor productivity.

In the area of productivity, Coats has taken the lead in the apparel industry in promoting the use of high performance corespun thread in the developing world. We expect this initiative to lead to a growth in total market value as well as in our market share.

New initiatives currently under trial include a colour management tool for the apparel supply chain drawing on a number of proprietary in-house technologies and a B2B solution which allows easy, transparent engagement with Coats supply centres across multiple country locations.

Acquisitions policy

We are confident that our current market position and strategy will result in organic growth and improved financial returns, especially once the remaining parts of our supply chain strategy are implemented. However, as can be seen with the success of the Barbour and DMC acquisitions, earnings growth prospects would be enhanced if we were able to gain additional presence in certain product

Thread

Partnerships

37

We have, so far, forged supply partnerships with 37 major global retailers and brand owners who source their products from more than 50 countries involving thousands of manufacturers – all serviced by Coats.

Overlooked asset

International senior management team

Our lead over competitors does not lie purely in physical infrastructure. Our international management cadre, built up over many years, allows Coats to manage operations in complex and diverse commercial and cultural environments.

Uncertainty over economic recovery in North America and Western Europe suggests progress in 2002 will be weighted to the second half.

segments and/or regions. We are better placed than most to extract synergies and therefore intend pursuing a more active acquisitions policy, but completion will ultimately depend on availability at a price which adds value for shareholders.

Fashion Retail

2001 has been a disappointing year for Jaeger with a great deal of good work on rejuvenating the brand, developing the range, improving product quality and on-time delivery and developing a new store design not rewarded in terms of financial results. Viyella continued to perform steadily with improvements in quality and delivery.

Bedwear

After the disruptive process of disposing of a series of ancillary home furnishings activities during 2001 the business is now focused on developing its core competencies in design and manufacturing while developing sourcing to reduce the cost of more basic components of its range.

India

Further good progress has been made with the phased withdrawal from the uncompetitive textiles business in India in order to focus on the profitable and growing thread business. This withdrawal will result in exceptional costs of approximately £15 million over two to three years. Following a share buyback last year Coats has increased its shareholding in the Indian subsidiary from 51.5% to 63.2%.

Competition inquiry

In November, The European Commission announced it was conducting an investigation into the supply of haberdashery and thread products. The investigation is still underway and Coats has made it clear publicly and privately that it wishes to co-operate fully with the investigating authorities. The Company has been advised that the investigation is likely to continue for some months before resolution.

Prospects

In the short term, much depends on the speed of recovery in US thread demand although stock pipelines are relatively empty. It is likely that Thread will make progress over the full year. This is expected to be concentrated in the second half as activity so far remains below that seen in the strong first half of 2001.

Bedwear has stabilised and should show improvement on 2001 results. Jaeger on the other hand, has so far seen little sign of recovery from the depressed levels of demand seen in the last quarter. Overall, on the basis of an upturn in demand in North America, we expect to make modest profit progress over the full year.

Business-to-Business

B2B

We successfully launched our B2B system in the US in 2001 with plans for progressive implementation around the world. This will move us towards a collaborative supply chain management with our customers.

Productivity improvement

98%

In 98% of the 100 plus productivity trials conducted to date worldwide, we demonstrated conclusively to customers that use of Coats high performance corespun thread reduces the total sewing cost and increases customers' profitability.

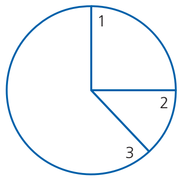
Growth prospects in thread – a unique opportunity

In all four of the core business segments, recent investments and global trends are creating new growth opportunities:

Apparel sewing thread 42% of Thread sales

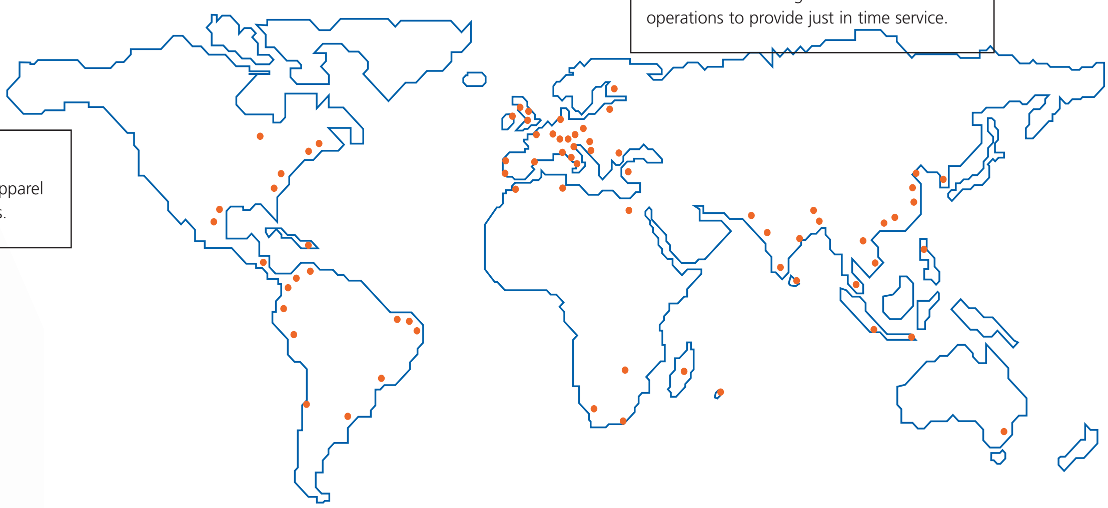
Sewing thread typically accounts for only around 1% of the cost of a garment but is a critical component in terms of the garment's overall quality and appearance besides impacting factory productivity. The share of Western markets' apparel requirements produced in the low cost markets of Asia, Eastern Europe and Central America/Caribbean has risen to over 80%, resulting in a significantly more complex supply chain to brand owners and retailers. Coats' strong customer relationships and high market share in Western markets, coupled with well-established operations in all of the key low cost garment production centres, create the opportunity for growth in global market share as the larger store buyers/brand owners increasingly look for greater control over supply standards.

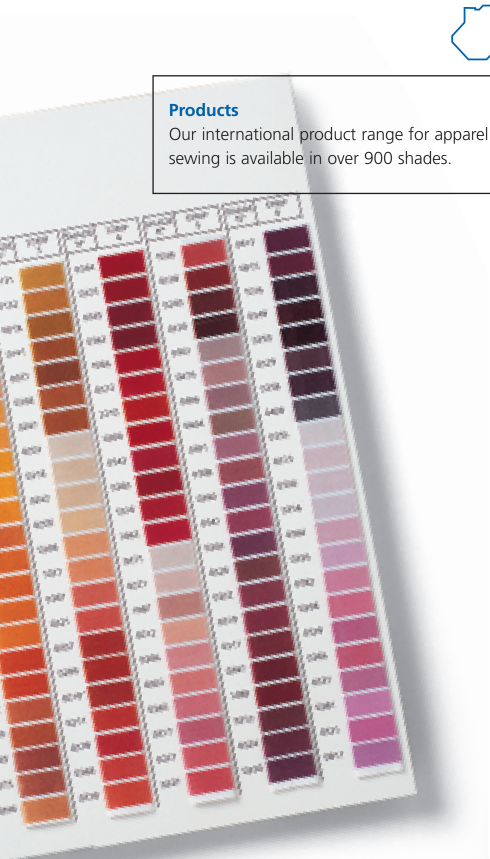
Share of £1.6 billion global market



1 Coats share 25%
2 Next competitor 13%
3 Others 62%

Operational presence
We have manufacturing operations in 43 countries – all aligned to our customers' operations to provide just in time service.





Products
Our international product range for apparel sewing is available in over 900 shades.

High performance thread
Use of Coats corespun thread can increase garment sewing productivity by more than 10%.

Technical innovation, early international expansion and key acquisitions have made Coats the clear leader in global thread markets:

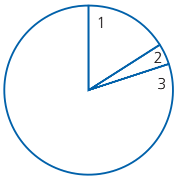
- **1755** James and Patrick Clark establish a business in Paisley, Scotland, to supply loom parts including heddle eyes made of silk twine.
- **1806** The Napoleonic wars hinder silk supplies, Patrick Clark invents a method of twisting cotton yarns suitable as a silk substitute.
- **1812** James Clark builds a mill to manufacture cotton sewing thread in the East End of Paisley.
- **1824** James Coats, a silk shawl weaver, builds a mill in the West End of Paisley to manufacture cotton sewing thread.
- **1864** The Clark family start manufacturing thread in Newark, New Jersey.

Speciality thread 14% of Thread sales

The acquisition of Barbour gave Coats market leadership in continuous filament thread. These high-value speciality products are used in a variety of applications across a number of industries.

Coats now offers the broadest range of speciality thread in the market. With technical centres in the US and the UK, we are able to develop specific products to meet exacting customer needs. The specialist nature of the product makes it essential for global customers to ensure that the same specifications are used by all their production locations, thus making Coats' international network a significant attraction. The combination of size, technical expertise and global service capability offers the prospect of significant growth in market share with early success already achieved in a number of key accounts.

Share of £0.8 billion global market



1 Coats Speciality thread 16%
2 Next competitor 4%
3 Others 80%

Non-apparel applications
Coats speciality thread for the auto industry can be found in airbags, upholstery, seat belts and interior trim.

Key customers
Leading footwear brands specify Coats speciality thread.

Embroidery
Coats trilobal polyester thread is designed for use on high speed computerised equipment increasingly used to embellish garments, footwear and furnishings.

- **1890** J&P Coats listed on London Stock Exchange.
- **1896** Merger of Coats and Clark family interests into J&P Coats.
- **1890-1914** Investment in thread mills in E. Europe, Russia, Manchuria, W. Europe, Brazil, Japan, Mexico.
- **1918-39** Investment in Germany, Bulgaria, China.
- **1940-60** Investment in India, S. Africa, Pakistan, Turkey, S. America, Philippines, Hong Kong.

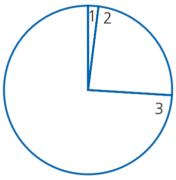
Growth prospects in thread – a unique opportunity

Zip fasteners and other apparel trim 10% of Thread sales

Apart from sewing thread there are various ancillary components that are needed to convert fabric into an attractive item of clothing. These include zip fasteners, buttons, linings, interlinings, press fasteners and hook and loop fasteners which together represent around 4% of the total garment cost giving a total potential market of well over £5 billion.

Coats so far has only a limited presence in this market segment – principally in zip fasteners where it is the world's second largest producer – but given many features in common with the apparel sewing thread market there is significant potential for increased market share as product expertise and brands are developed or acquired.

Share of over £5.7 billion global market



1 Coats 2%
2 Largest competitor 24%
3 Others 74%

Opti zips
Opti's pioneering woven zip technology has made it the second largest zip brand in the world.

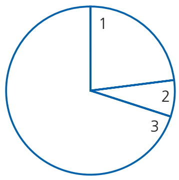
- **1961** Merger with Patons & Baldwins – leading UK manufacturer of handknitting yarns dating back to beginning of nineteenth century with interests in Australia, Canada, China – forms Coats Patons.
- **1962** Launch of synthetic corespun thread.
- **1964** Launch of handknitting yarns by Coats in the United States, Walmart an early customer.
- **1986** Merger with Vantona Viyella – leading UK clothing & home furnishings manufacturer – forms Coats Viyella.
- **1989** Acquisition of Opti zip fasteners.

Crafts 34% of Thread sales

Coats crafts business consists of a wide variety of consumer products used in textile crafts and leisure activities such as home sewing, embroidery, tapestry, knitting and crochet. Today these activities can be seen as part of the broader leisure market and as such the textile crafts market has been affected by competition from other leisure pursuits as well as a reduction in distribution outlets. Nevertheless the total market for textile crafts remains substantial, albeit with some rotation in popularity of individual segments as seen in the current strength of handknittings and weakness in embroidery.

Coats' strengths are its coverage of a broad range of activities and its relative size. The resulting economies of scale create the potential for growth even where markets are mature or in decline. Coats North America's consistent growth in handknittings over the last 35 years is a clear example of how a leading market position can be successfully extended in a relatively static market. In addition to the opportunity to grow market share organically and by acquisition in mature Western markets, there is also the prospect of building on the awareness of Coats' brands in emerging markets as consumers become more affluent.

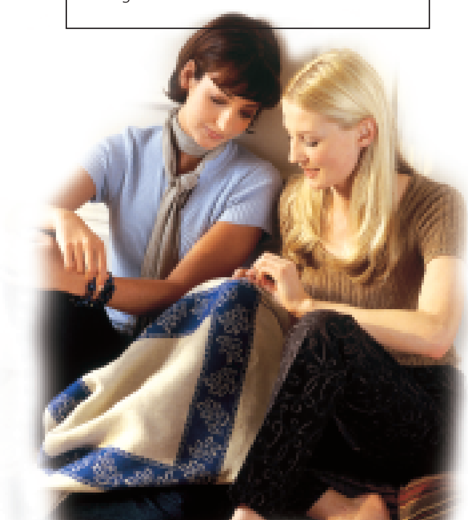
Share of £1.4 billion global market



1 Coats 23%
2 Next competitor 7%
3 Others 70%

North American handknittings
Since its launch in 1964, Red Heart handknitting yarn has consistently won market share in North America.

Anchor embroidery
During 2001, Anchor embroidery saw strong sales growth in Asia.



Consumer sewings
Coats is the world leader in consumer sewings.

- **1991** Acquisition of Tootal, extends Coats' global thread coverage, notably in key Asian markets.
- **1992** Investment in dyeing and finishing in China. Re-entry into Mexico, Hungary.
- **1999** Acquisition of Barbour, world market leader in speciality thread.
- **2000** Strategic decision to focus resources on Coats' global thread business.
- **2001** Acquisition of DMC industrial thread. Coats Viyella Plc renamed Coats plc.

Thread operating review

Bryan Anderson
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

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 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.

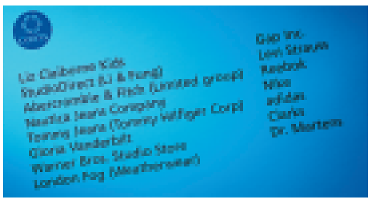
Europe

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

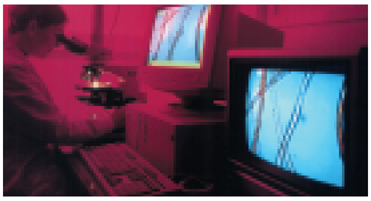
In the face of short term economic and political uncertainties, management action has focused on three critical areas:

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.

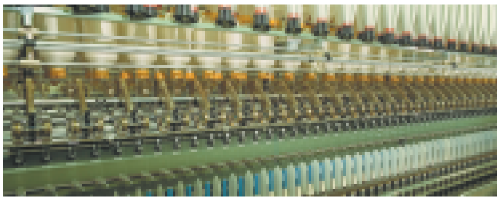
Thirdly, the enhancement of service capability in low cost locations. During 2001 we have continued to invest in fast response service units, notwithstanding the difficult economic climate. Further strengthening of our service network is planned for 2002, both expansion of existing capacity and greenfield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

Pat Burnett
Chief Executive/Fashion Retail

Good progress with brand building, design and supply chain, but improved first half performance was not sustained in the second half.

13% of Group sales	2001	2000
	£m	£m
Sales	156	149
Operating profit/(loss) before reorganisation costs	(2)	3
Net assets	51	52
Return on year end net assets	n/a	4.8%
Capital spend	4	3
Employees at year end	2,959	3,088

Overall performance

Despite sales growth of 5%, full year results were disappointing. Difficult trading conditions in the second half offset the progress seen in the first.

Jaeger

First half sales improved 6% like-for-like, underpinned by a strong performance from the UK womenswear business. Key drivers behind this growth in both sales and margin were improved design of the collections and a move from discounting to premium trading. The brand building campaign to rediscover and rejuvenate Jaeger received a positive reception and the trial of our new store design was successful. Working capital improvements on the back of tight control of finished stocks and supply chain improvements had a positive impact on cash flow.

Second half sales were significantly impacted by the events of 11 September. Customer traffic in Central London and the US was well down during the critical September and October months when the brand would normally achieve full price sales. This resulted in a greater need to discount to clear stocks during November and December. Sales were well up over the Christmas period and in total second half sales were 1% above the previous year. Margins however fell below last year.

Viyella

Viyella also enjoyed a strong first half, with like-for-like sales up 17% on the back of a buoyant High Street performance. Underpinning this growth was the introduction of new product categories in contemporary and weekend wear, leading to a broadening of the appeal of the range. Further progress has also been made in supply chain management and sourcing, supporting the key brand differentiator of looking good for longer quality product. Margins improved by two percentage points as a result of strong full price sales backed by value added promotions.

The second half saw a positive reaction to the new collection. However, an increase in discounting to clear stocks resulted in weaker margins on sales that were 2% ahead of the previous year.

Viyella continued to attract new customers and with additional new product is well placed to benefit from any upturn in consumer spending.

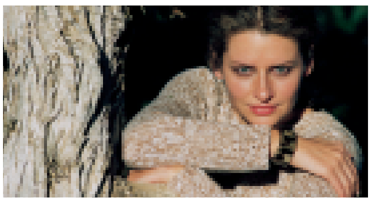
Fashion Retail

JAEGER

Jaeger

Autumn/Winter 2001 menswear campaign.

Viyella



Spring/Summer 2002 campaign.

Glenn Albinson
Managing Director/Bedwear

Improved results from a more focused business.

7% of Group sales	2001	2000
	£m	£m
Sales	87	95
Operating profit before reorganisation costs	1	1
Net assets	24	28
Return on year end net assets	3%	4.6%
Capital spend	1	1
Employees at year end	1,971	2,260

Restructuring

During the first half of the year the former Home Furnishings Division was substantially restructured leaving the business focused on the UK bedwear market. The towel, table linen, commission finishing and European bedwear subsidiaries have been sold, and the manufacturing base is being reduced to two hemming units and the Chinley dyeing and printing plant.

Bedwear margins improve

Within the Bedwear business, sales declined by 8% to £87 million with all of the reduction in turnover being in private label and sales to the divested European Bedwear subsidiaries. Despite the substantial sales reduction, underlying operating profit before asset disposals improved as reorganisation of the manufacturing base and the sourcing of lower cost product improved operating margins.

Despite the uncertainty engendered by the disposal process, the branded businesses performed well. Sales of the Dorma brand were level with the previous year but margins improved due to a stronger overall range and less discounting. The Vantona brand also benefited from a stronger range and the continued success of the Laurence Llewelyn-Bowen licence.

The private label part of the business performed less well. After an excellent two years with the major customer Marks & Spencer, sales dropped by a third as Marks & Spencer repositioned a significant part of their supply base. Substantial turnover was also lost with BhS as they moved their solid colour business to an overseas source. Elsewhere prices remained under pressure as cheaper imported product continued to dominate the market place.

Dorma, holder of three royal warrants.

A comprehensive range of co-ordinated bedlinen and accessories.

Jonathan Lea
Group Finance Director

While profits reflect the downturn in the US, cash flow generated from operations and the disposal programme enabled us to maintain investment in the core business and to reduce debt.

Accounting standards

The Group's accounting policies reflect the applicable standards issued by the Accounting Standards Board.

FRS17 – Retirement Benefits has been adopted in preparing the accounts for 2001 and the comparative figures for 2000 have been restated. As indicated in last year's annual report, this new standard has a significant impact compared to the previous treatment under SSAP 24. Although full adoption of the new standard is not obligatory until 2003, the particular circumstances of Coats' UK Pension Scheme has led management to the view that early adoption is best practice.

FRS18 – Accounting Policies has also been adopted but has no impact on the figures reported.

Review of operating results

Turnover of continuing businesses was down 4% at £1,212.6 million. Operating profit before reorganisation and other exceptional items was £68.8 million compared to £95.2 million in 2000. The US downturn and de-stocking throughout the apparel supply chain had a negative impact on Thread profits. Jaeger, which had been showing signs of recovery in the first half, was impacted by the events of 11 September. Reduced turnover in India textiles reflected the exit from apparel fabrics and success with the voluntary retirement scheme prevented further deterioration in profit. Head office costs were reduced while benefiting from an exchange gain of £0.9 million.

Although the Group enjoys pension contribution holidays, under FRS17 notional employer pension contributions are included as a charge to operating profit. The notional contribution rates are higher in 2001 due to a reduction in the expected investment returns. The charge is £12.0 million in 2001, which is £1.4 million higher than in 2000. There is also a non-repeating FRS17 credit of £4.0 million in 2000 for adjustments to the conditions of the US post-retirement medical plan. Together, these adjustments account for a £5.4 million reduction in reported operating profit in 2001 compared to 2000.

Including discontinued businesses, operating profit was £68.4 million compared to £87.3 million in 2000.

Reorganisation costs (including impairments of fixed assets) at £31.5 million were slightly lower than in 2000 but with a higher spend in Thread (£25.7 million) driven by swift action to reduce costs in the US, in the light of significantly lower industrial thread demand.

Disposals

There has been significant activity in disposing of both businesses and surplus assets. The programme of disposal of Clothing and Home Furnishings businesses resulted in a net loss of £2.7 million. The other main items were the termination of the Indian apparel fabrics business (loss – £12.8 million) and the sale of Dimensions, the US Kits business, which due to a write-back of previously written-off goodwill, resulted in a net loss of £11.8 million. Gains on sales of property

Turnover

Operating profit before exceptional items

and other assets made surplus by the disposal and reorganisation programme totalled £13.6 million. The net loss on sales or terminations and asset sales was £13.2 million, compared to £81.2 million in 2000.

The disposal programme generated £33.1 million in cash on the sale of businesses and a further £24.0 million on the sale of property and other assets.

Net interest costs were £10.5 million compared to £20.1 million in the previous year. This included investment income, £0.6 million gain on the sale of certain fixed asset investments and the impact of exchange rates on US dollar interest income.

Operating profit after associates and net interest was £26.0 million (2000 – £30.9 million), a reduction of £4.9 million.

FRS17 has introduced a new line "other finance income" which represents the net return on pension assets and liabilities. This credit is lower in 2001 at £10.2 million compared to £19.2 million in 2000. The reduction is due to the lower expected rate of return in 2001. This is applied to the lower market value of the pension assets, which had fallen in line with equity markets between 1 January 2000 and 1 January 2001.

Profit before tax

The profit before tax was £23.0 million (2000 – loss £31.1 million). On the IIMR basis (before goodwill and FRS3 exceptionals) profit before tax was £38.0 million (2000 – £53.1 million).

The comparable figures under SSAP 24 for the IIMR basis profit before tax was £46.3 million (2000 – £53.3 million). The UK SSAP 24 pension credit for 2001 would have been £1.3 million, £3.9 million lower than 2000 (£5.2 million).

Taxation

The tax charge was reduced to £11.1 million (2000 – £16.8 million). This charge is made up of tax on profits of overseas subsidiaries, while the Group continued to experience losses in the UK. The reduction in the tax charge reflects lower profits in the US.

The principal exchange rates used in preparing the financial statements were:

£m		2001	2000
Average	US$	1.44	1.51
	Euro	1.61	1.64
Year end	US$	1.46	1.49
	Euro	1.63	1.59

The translation of 2000 overseas turnover and profits at 2001 average rates increased sales by £27.6 million and operating profit by £2.5 million.

EPS is impacted by the new standard and the comparative figures are shown below:

EPS (p)		2001	2000
FRS17	Headline EPS	2.8	3.9
	Basic EPS	1.4	(9.0)
SSAP 24	Headline EPS	3.6	3.8
	Basic EPS	2.4	(8.9)

Pension arrangements

The Company operates a defined benefits plan in the UK. This plan has a healthy surplus at 31 December and remains open to new members. There are similar arrangements in the US where again the plan is in surplus. Continued suspension of employer contributions has been recommended by the actuaries in both cases.

Pre-tax profit/(loss) before FRS3 exceptional items

Net interest cover (operating profit)

There are various pension and leaving indemnity arrangements in other countries where the Group operates, which are in general not funded.

Pension assets and liabilities

FRS17 requires greater disclosure of the pension assets and liabilities. Under FRS17 where a plan is in surplus, the balance sheet pension assets are restricted to the surplus recoverable through contribution holidays plus any agreed refunds of surplus to the Company net of deferred tax. On this basis, the pension asset at 31 December 2001 is £50.7 million, of which £24.4 million refers to the UK plan and the remainder to plans in North America. The amount recoverable through contribution holidays has fallen during the Group's restructuring due to the significant reduction in active members in the UK pension plan. There are currently no refundable surpluses and there have been no refunds.

Pension liabilities are shown in respect of obligations in other countries, mainly in Europe. These are mainly unfunded and amount to £52.9 million net of deferred tax at 31 December 2001.

Cash flow

Net cash inflow from operating activities was £86.9 million, up £13.6 million on 2000. The disposal of businesses and surplus assets generated £57.1 million (2000 – £55.5 million).

Capital expenditure was £54.7 million (2000 – £51.7 million). The cost of acquisitions, including a share buy-back scheme in India, was £24.9 million of which £22.4 million was in cash and £2.5 million in loan notes.

Year end debt decreased to £128.1 million (2000 – £148.2 million).

The Group's borrowing facilities were renegotiated following completion of the main disposals. The Group has facilities of £418 million at the year-end of which £243 million are committed. The Group was not in breach of any of its borrowing covenants.

The Group policy on interest rates is to minimise exposure by ensuring an appropriate balance of fixed and floating rates. This exposure is managed through the use of interest rate swaps and forward rate agreements, the nominal principal of which does not exceed the underlying debt and cash positions covered.

Following the restructuring of the UK businesses the majority of the Group's profits, cash flows and assets relate to its overseas Thread operations and are denominated in a range of currencies. The Group's translation exposure in the profit and loss account is not hedged. Borrowings are taken or swapped into US$ to hedge the impact of changes in the sterling/US dollar exchange rate on the translation of US dollar denominated assets. Further details are contained in note 19 of the Report and Accounts.

Net cash flow from operating activities

Gearing

Executive Directors

Martin Flower (Aged 55) Group Chief Executive.
Joined the Group in 1968 after graduating from Oxford University and held various overseas appointments in Venezuela, Peru, Indonesia, Hong Kong and Brazil. Appointed Chief Executive of the Thread business in 1988, to the Board of Coats plc in 1990 and Group Chief Executive in March 2001. He is a Non Executive Director of Severn Trent Plc.

Jonathan Lea (Aged 43) Group Finance Director.
Joined the Group in 1979 and has held financial management positions in South America, Germany, Hong Kong and India. Appointed Finance Director of the Thread business in 1998 and Group Finance Director of Coats plc in April 2001. He is a Fellow of the Chartered Institute of Management Accountants.

Bryan Anderson (Aged 42) Chief Operating Officer, Thread.
Joined the Group as a graduate trainee in 1982, and has held a series of financial and operational management positions in the Thread business, predominantly in Asia but also in Europe and South Africa. Appointed Chief Operating Officer, Thread in August 2001 and to the Board of Coats plc in January 2002.

Non Executive Directors

Sir Harry Djanogly CBE (Aged 63)
Appointed a Director in 1985 and Non Executive Chairman in July 1999. He is Non Executive Deputy Chairman of Singer & Friedlander Plc and a Non Executive Director of Carpetright Plc. He is Chairman of the Nomination Committee and a member of the Remuneration and Audit Committees.

Sir Victor Blank (Aged 59)
Appointed a Director in 1989 and Senior Non Executive Director in March 1999. Became Non Executive Deputy Chairman in July 1999. He is Chairman of Trinity Mirror PLC, Chairman of GUS plc, Senior Independent Director of Chubb PLC (formerly Williams PLC) and Chairman of the charity WellBeing. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Keith Merrifield (Aged 59)
Appointed a Director in September 1996. Director of British Biotech Plc, and Boehringer Ingelheim (UK) Ltd. Formerly Director of International Operations for Wellcome PLC. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Eduardo Malone (Aged 52)
Appointed a Director in January 2001. He is Chairman of Chargeurs and Chairman of the management board of Pathe. He is Vice President of the Textile Manufacturers Institute and a member of the Strategy Board of MEDEF International. He is a Director of Remy Cointreau and a member of the Supervisory Board of Galleries Lafayette. He is a member of the Nomination Committee.

Blake Nixon (Aged 41)
Appointed a Director in January 2001. He has a wide experience of corporate finance in both the UK and Australia. He is UK Executive Director of Guinness Peat Group plc and Chairman of Staveley Industries plc. He is a member of the Audit and Nomination Committees.

Company Secretary: Christopher Healy

Auditors: Deloitte & Touche

Solicitors: Slaughter & May

Brokers: Cazenove & Co

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 2001.

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, homewares and fashionwares.

Share capital

Details of the authorised and issued Ordinary share capital during the year are shown in note 22 to the accounts.

Major shareholdings

As at 1 March 2002, the Company was aware of the following persons who were directly or indirectly interested in 3% or more of the Company's issued Ordinary share capital:

	Number of Ordinary shares	Percentage held
Guinness Peat Group plc	150,474,232	21.33
RIT Capital Partners Plc	60,028,269	8.51
Chapman International Investments Limited*	46,584,156	6.60
UBS Asset Management Limited	34,595,526	4.90

*Includes Ordinary shares held by Colmar Investment Holdings Limited, The Millennium Trust, The Panda Trust and The Apple Pie Trust under Sections 204 and 205 of the Companies Act 1985.

Acquisitions and disposals

Details of acquisitions and disposals during the year are set out in the Financial review on pages 16 to 18.

Review of the business

A review of the business during the year and of prospective future developments is contained within the Chairman's statement, the Chief Executive's review, the Operating reviews and the Financial review set out on pages 4 to 18 which constitute an integral part of this Report.

Property

The majority of the Group's freehold and long leasehold properties were professionally valued by Healey & Baker at 30 June 1992. Group occupied properties were generally valued on the basis of open market value for existing use, although certain limited parts were valued on the basis of depreciated replacement costs. Those properties held surplus to requirements were valued on the basis of open market value. Since the completion of Healey & Baker's 1992 valuation a number of properties have been sold and, in the Directors' view, the surplus over book value based on the 1992 valuation has now been reduced to around £37 million.

Results and dividends

The results of the Group for the year appear in detail on page 30. The preference dividends, amounting to £715,863 (2000 – £715,863) were paid on their due date.

The Directors recommend a final dividend of 1.5p per share. If approved by shareholders, dividends for the year will total 3.0p (2000 – 3.0p). Movements in reserves are set out on page 53.

Directors

Sir Harry Djanogly, Sir Victor Blank and Messrs Flower and Merrifield served as Directors throughout the year. Messrs Malone, Nixon and Goutard were appointed Directors of the Company on 10 January 2001 and Mr Lea on 2 April 2001. Ms Kantor and Mr Hartley retired from the Board on 2 April 2001, Lord Owen on 16 May 2001 and Mr Goutard on 31 December 2001. Mr Anderson was appointed a Director of the Company on 1 January 2002.

In accordance with the Articles of Association of the Company Sir Victor Blank and Mr Flower retire by rotation under Article 110 and, being eligible, offer themselves for re-election. Mr Anderson also offers himself for re-election as he has been appointed a Director of the Company since the previous Annual General Meeting of the Company.

Directors' interests

The interests of the Directors in the share capital of the Company are shown on page 28.

Option schemes

Details of the Executive share schemes are given in the Report on Directors' Remuneration on pages 25 to 28. No options over Ordinary shares were granted under the Sharesave scheme during the year.

Employment practices in the UK

The Group is committed to ensuring that employment practices and policies continue to match best practice. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated. Coats European Works Council continues to play a major role in the process of employee consultation and provides an opportunity for employee representatives to be consulted in relation to key issues that affect their employment.

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

Ethical employment

The Group operates worldwide in full recognition of key ILO conventions. The Group's 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.

Health and safety

The Group is committed to effective health and safety risk management and work is underway to establish a group wide system of health and safety performance monitoring in order that appropriate information can be published in future years.

Supplier credit

It is the Group's policy that its subsidiaries follow the CBI Code of Practice regarding the prompt payment of suppliers. A copy of the Code 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
- pay in accordance with its contractual and other legal obligations

As the parent Company does not trade, the number of days' credit in 2001 was nil (2000 – nil).

Research and development

Resources have continued to be made available for research and development to improve products and processes. Contacts are being maintained and developed with outside institutions and centres of design excellence enabling the Group to maintain a leading position in technology and design.

Pension fund

The Coats Pension Plan is a contributory scheme open to most 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 Group indemnifying them against certain liabilities incurred by them while acting as officers of the Group.

Charitable donations

Payments of £8,000 (2000 – £13,000) were made to charities during the year.

Auditors

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

Annual General Meeting

Attached to this report on pages 65 to 68 is the Notice of Annual General Meeting, which sets out the resolutions for the ordinary and special business of the Annual General Meeting.

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. 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
Christopher Healy
Company Secretary
5 March 2002

Corporate governance

The Combined Code on Corporate Governance issued by the Financial Services Authority contains 14 principles of good governance applicable to listed companies and the paragraphs below together with the Report on Directors' remuneration on pages 25 to 28 disclose how these principles are applied within the Group.

Directors

The Group is controlled by a Board of Directors, the majority of whose members are Non Executive. All Directors are able to take independent professional advice in furtherance of their duties as necessary. The Board has a formal schedule of matters reserved to it and met five times during 2001. It is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure, reorganisation projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the trading divisions, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental, employee issues and key appointments. It ensures that all Directors receive appropriate training on appointment and then subsequently as appropriate. All Directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established a number of standing committees. The principal committees are the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee.

Relations with shareholders

The Group encourages two-way communication with its institutional and private investors and responds quickly to all queries received verbally or in writing. The preliminary and interim results are presented to analysts and other meetings with shareholders are arranged as appropriate. All shareholders have at least twenty working days notice of the Annual General Meeting at which all Directors and Committee Chairmen are available for questions.

Financial reporting

Reviews of the performance of the Divisions and the overall financial position of the Group are included in the Chief Executive's review, Operating reviews and Financial review on pages 5 to 18. The Board uses these, together with the Chairman's statement on page 4 and the Directors' report on pages 20 and 21 to present a balanced and understandable assessment of the Group's position and prospects.

Statement of internal control and risk management

The Directors are responsible for the Group's system of internal control and for regularly reviewing its effectiveness. It is recognised that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been established. This process has been operational for the year under review and up to the date of approval of the Annual Report and Accounts. The process is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

As part of the establishment of a formal risk management infrastructure to suit the geographically dispersed nature of the Group, key individuals within each of the businesses have been identified to act as risk co-ordinators. At the end of every quarter each Risk Co-ordinator provides a report to the Risk Management Committee which updates the progress made with regard to dealing with those risks identified as significant, together with any evolving risks which may be threatening the business.

The Risk Management Committee comprising the Executive Directors and the Chief Executive of Fashion Retail and the Managing Director of Bedwear meets quarterly, to discuss all risk matters affecting the Group. The Risk Management Committee is responsible for the co-ordination of Group wide risk management, including the regular review of management risk reports. These quarterly reports include management assertions regarding the key risks. The Risk Management Committee reports directly on a quarterly basis to the Board. Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the Board's attention.

In reviewing the effectiveness of the system of internal control, the Board has received and considered the regular risk reports, including management assertions together with the reports of internal audit.

Internal financial control

The Directors are responsible for the Group's system of internal financial control and for reviewing its effectiveness. The key control procedures are described under the following five headings.

Management structure
As a large, geographically dispersed multinational business, the Group operates through a divisional structure. Each Division has a board of Directors or a management committee which accounts for its performance on a monthly basis through its Divisional Head to the Group Chief Executive. Management review meetings are held regularly for each Division at which the Division's progress is reviewed and subsequently reported to the Group Board at its next meeting.

Financial reporting
There are comprehensive management reporting disciplines which involve the preparation of annual budgets by all operating units. The budgets are successively reviewed by executive management and passed to the Board for approval. Monthly results are reported against the approved budget and revised forecasts are prepared at quarterly intervals.

Investment appraisals
The Group has a clearly defined framework for capital expenditure including appropriate authorisation levels beyond which such expenditure requires the approval of the Board. There is a prescribed format for capital expenditure applications which places high emphasis on the commercial and strategic logic for the investment and demands a high quality financial presentation of the business case. As a matter of routine, projects are also subject to post-investment appraisal after an appropriate period.

Functional reporting
The Group has identified a number of key areas which are subject to annual reporting to the Board. These include treasury operations and corporate taxation matters. Other areas given particular emphasis are information management strategy and risk management, the latter including environmental, legal and insurance matters.

Internal audit
The internal audit function is carried out by PricewaterhouseCoopers who report to the Finance Director and have access to the Audit Committee on a regular basis. The scope of internal audit covers a wide variety of operational matters and, as a minimum, ensures compliance with the Group's specified standards. The direct reporting route to the Finance Director ensures that appropriate actions are taken and can be reported back to the Audit Committee on a timely basis.

It is the view of the Board that the overall quality of internal financial control across the Group can be related directly to the controls in individual operating units. It is therefore a requirement for the managers of operating units and divisions to confirm in writing the quality of internal financial control in their area. The statements are required in respect of each financial year as part of the year-end accounting process and are reported to the Audit Committee.

Audit Committee
The Audit Committee, comprising of Non Executive Directors, has specific terms of reference which set out its authorities and duties. It meets formally at least three times a year with the external and internal auditors. The Committee overviews the monitoring of the adequacy of the Group's internal financial controls, accounting policies and financial reporting and provides a forum through which the Group's external and internal auditors report to Non Executive Directors. This forum may take place in private without the presence of an Executive Director.

Going concern basis
After making enquiries, the Directors have formed a judgment that at the time of approving the financial statements, there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. This Statement also forms part of the Chief Executive's review, Operating reviews and Financial review.

Environmental management
The Group requires local management in its international businesses to take responsibility for environmental performance, within the framework of the Coats Worldwide Environmental Policy. This Policy is published on the Company's website, together with further details of the Group's approach to environmental management and achievements of individual businesses.

Units prepare an annual self-assessed audit report, covering Environmental Management Systems (EMS), emissions, energy and resources management, compliance, targeted action plan, customer issues and external interests. These are evaluated for reliability by the Group's external auditors on a sample basis.

In addition to the self-assessment process, a number of site audits are undertaken by the Group, supporting risk management and enabling the sharing of good practice.

The results, for the 90 units completing the 2001 self assessment are summarised on the Company's website. The good progress of recent years in environmental management has continued to be maintained amongst Coats' established units. New sites and acquisitions are being integrated in Coats' EMS and are moving towards Group defined levels of performance in key areas of environmental management.

Six environmental incidents, leading to action by regulatory authorities, were reported to the Group. These did not result in prosecution and action has been taken by the Group to prevent reoccurrence.

This statement and a representative sample of self assessed audits, have been reviewed by Deloitte & Touche, Environmental Consultants. Their verification opinion statement is available on the Company's website.

Compliance statement

Throughout the year ended 31 December 2001 the Group has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.

The Remuneration Committee

The Remuneration Committee is chaired by Mr Merrifield and acknowledges the principles and provisions relating to Directors' remuneration contained in the Combined Code. During 2001, he and Sir Harry Djanogly and Sir Victor Blank together with Lord Owen and Noel Goutard up to the date of their retirements were members of the Remuneration Committee and are independent Non Executive Directors. The Committee maintains overall responsibility for the development and effective implementation of senior management remuneration policies as well as approving the individual salaries and packages of the Board and other senior executives. The Committee has access to professional advice from inside and outside the Group as well as to detailed information about the remuneration practices of companies of similar size and international spread and of industry competitors. No Director plays a part in any discussion about his own remuneration.

The Group has sought to build a performance led culture and, accordingly, its remuneration and benefits policies are constructed to support the principle of rewards related to achievement. The Group's success is dependent on senior management motivated by the opportunity both to pursue a varied and challenging career and to benefit from a fairly based and competitive remuneration package.

Remuneration package

The Group's Executive Directors received a basic salary and were eligible to receive an annual bonus pursuant to the Senior Management Performance Plan. The level of basic salary is determined by the Remuneration Committee prior to April each year or when an individual changes position or responsibility.

Bonuses possible under the Senior Management Performance Plan consider factors including achieving budget for operating profit and return on capital employed. In addition, the Remuneration Committee is empowered to award additional bonuses at its discretion. Details of bonuses paid to Directors for 2001 are disclosed on page 27.

A Long Term Incentive Plan introduced in 1995 for senior managers did not result in the allocation of any shares as performance targets were not achieved. During the year no shares for use under the Long Term Incentive Plan were purchased by the employee benefits trust which administers the funds allocated to the Group's subsidiaries. The Trust held 552,569 Ordinary shares as at 31 December 2001 (2000 – 1,012,907) and the market value of these shares was £261,089 (2000 – £389,969). During the year the Trust distributed a total of 460,338 Ordinary shares to selected senior managers under a loyalty bonus scheme. No Directors of the Company were participants in the loyalty bonus scheme.

Under the terms of the 1994 Executive Share Option Scheme, the Remuneration Committee may grant options to Directors and a wide group of senior management at the market price prevailing at the time of grant. Options are exercisable not less than three and not more than ten years after the grant. The exercise of options granted under this Scheme is dependent upon growth in the Group's earnings per share exceeding by 2% the increase in the retail price index during any three year period following grant. It has been the Group's policy ordinarily to grant options under the Scheme on a staged basis. Options in respect of 7,550,000 Ordinary shares were granted on 17 September 2001 to certain senior executives including the Executive Directors at an option price of 51.25 pence per share.

New share plans

The Remuneration Committee has undertaken a review of the current executive incentive plans and has concluded that it would be appropriate to introduce new plans which are consistent with current best practice and which support the strategic goals of the Group.

It is proposed that the 1994 Executive Share Option Scheme be replaced by new approved and unapproved option plans which have been designed in accordance with the principles set out in UK corporate governance guidelines. The plans incorporate a number of new features compared with the 1994 Scheme including an annual grant size maximum, a fixed performance measurement period and a three-year EPS performance measure that is more demanding for larger option grants.

The Remuneration Committee also recommends that the current Long Term Incentive Plan, introduced in 1995 be replaced with a new performance share plan. This has been designed to reward the delivery of exceptional shareholder value and focuses on those individuals who have overall responsibility for strategic direction, driving overall business performance and leading transformational change. As such it is intended that participation will initially be limited on a discretionary basis to key selected senior executives, although it may be appropriate to extend this in the future. Awards under the plan may be in the form of either shares or nil-priced options, or an equivalent cash amount.

Performance will be measured on the basis of three year growth in Earnings Per Share and awards will vest (i.e. be earned and paid) on a sliding scale of challenging targets. For the first awards, nothing will vest if three-year EPS growth is less than RPI + 30%. A maximum of 150% of an award will vest for three-year EPS growth of RPI + 105%.

Executive Directors' pension arrangements

All Executive Directors are members of the Group pension plan which is contributory and is approved by the Inland Revenue. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The Group pension plan has been established for many years and normally provides for a pension on retirement at the age of sixty of up to two-thirds of final basic salary. This may be increased within Inland Revenue limits where qualifying pensionable service exceeds thirty years in which case remuneration in addition to basic salary may be taken into account.

There have been no changes in the terms of Directors' pension entitlements during the year.

Other benefits

Executive Directors receive benefits including medical insurance and company car benefits in line with competitive practice. The value of such benefits is set out on page 27.

Executive Directors' contracts

Executive Directors currently have contracts expiring on twelve months' notice. On appointment from outside the Group, however, a new Director may be entitled to a contract with an initial notice period of twenty-four months reducing to twelve months at the end of the first year of service. The Group may be obliged to pay the unexpired portion of a Director's contract, if it is terminated early. The Group's personnel policies relating to its UK based senior management include guidelines on redundancy payments, which reflect the length of service of the redundant employee. These guidelines would also apply to any Director made redundant. Mr Flower has 34 years' service with the Group and the maximum benefit payable to him under the guidelines, inclusive of any entitlement under his service contract, would not exceed two years' basic salary. Executive Directors' contracts of service will be available for inspection at the Annual General Meeting.

External appointments

Subject to Board approval and the reasonableness of demands on their time, Executive Directors may assume membership of up to two other boards on the basis that the Director concerned may retain any fees earned by him.

Non Executive Directors

The remuneration of the Non Executive Directors is determined by the Board and is based upon independent surveys of fees paid to Non Executive Directors of similar companies. The Non Executive Directors do not have contracts of service with the Company and are not members of the Pension Plan. Sir Harry Djanogly is entitled to benefits including medical insurance and company car benefits. Details of Non Executive Directors' remuneration are disclosed in the table of Directors' remuneration set out on page 27.

The Remuneration Committee has determined that there are no special circumstances giving rise to a need to invite shareholders to vote on any resolution concerning remuneration at this year's Annual General Meeting. The Chairman of the Committee will, however, be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

For and on behalf of the Remuneration Committee

K J Merrifield

Directors' remuneration for year ended 31 December 2001

	Salaries/fees		Taxable benefits		Performance related bonuses		Compensation for the loss of office		Total	
	£'000 2001	£'000 2000	£'000 2001	£'000 2000	£'000 2001	£'000 2000	£'000 2001	£'000 2000	£'000 2001	£'000 2000
Sir Harry Djanogly	**125**	125	**18**	20	**–**	–	**–**	–	**143**	145
M C Flower	**332**	300	**15**	16	**–**	174	**–**	–	**347**	490
J D Lea	**139**	–	**10**	–	**–**	–	**–**	–	**149**	–
Sir Victor Blank	**28**	20	**–**	–	**–**	–	**–**	–	**28**	20
E A Malone	**24**	–	**–**	–	**–**	–	**–**	–	**24**	–
K J Merrifield	**48**	20	**–**	–	**–**	–	**–**	–	**48**	20
B A Nixon	**24**	–	**–**	–	**–**	–	**–**	–	**24**	–
N Goutard	**24**	–	**–**	–	**–**	–	**–**	–	**24**	–
M G Hartley	**81**	250	**16**	16	**–**	167	**260**	–	**357**	433
K T Kantor	**97**	250	**6**	25	**45**	250	**753**	–	**901**	525
Lord Owen	**8**	20	**–**	–	**–**	–	**–**	–	**8**	20
Total	**930**	985	**65**	77	**45**	591	**1,013**	–	**2,053**	1,653

Notes

1 The figures set out above relate only to the period of each Director's membership of the Board.

2 Emoluments are paid in the same financial year with the exception of bonuses, which are paid in the year following that in which they are earned.

3 Ms Kantor's compensation payment includes one year's salary in accordance with her contract of employment, a payment of £472,800 in lieu of her entitlement under her unfunded unapproved pension arrangements and a payment for outplacement services.

4 Mr Hartley's compensation payment includes one year's salary in accordance with his contract of employment and a payment for outplacement services.

Directors' pension entitlements	Increase in accrued pension entitlement during 2001 (Note 2) £ pa	Total accrued pension entitlement at 31 Dec 2001 £ pa	Transfer value of increase in accrued pension entitlements during 2001 (Note 3) £
M C Flower	55,130	235,420	1,008,520
J D Lea	9,833	53,025	114,840

Notes to pension benefits

1 The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.

2 The increase in accrued pension during the year excludes any increase for inflation.

3 The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Notes GN11 less Director's contributions and includes the cost of death in service cover and salary continuance protection.

4 Members of the Plan have the option to pay Additional Voluntary Contributions. The figures in the table above do not include allowance for benefits produced by AVCs, nor has the transfer value been adjusted in respect of AVCs.

5 The figures set out above for Mr Lea apply only to the period of his appointment as a Director from 2 April 2001.

Directors' interests	31 December 2001	Ordinary shares 31 December 2000 or date of appointment if later
Sir Harry Djanogly	**1,292,207**	1,292,207
M C Flower	**84,502**	84,502
J D Lea	**23,079**	23,079
Sir Victor Blank	**124,094**	124,094
N Goutard	**–**	–
E A Malone	**–**	–
B A Nixon	**–**	–
K J Merrifield	**30,000**	30,000

Mr Goutard resigned as a Director of the Company on 31 December 2001. Mr Hartley and Ms Kantor, who both retired from the Board on 2 April 2001, had interests in 64,780 and nil issued Ordinary shares respectively during the period of their appointments. Mr Anderson, who was appointed as a Director on 1 January 2002, is interested in 9,000 Ordinary shares.

Messrs Flower, Lea and Anderson are also deemed to be interested in the 552,569 Ordinary shares held by the Trustee of the Employee Share Option plan, solely by virtue of the fact that they are potential beneficiaries.

In 1992, the Company, through a subsidiary, acquired a joint interest in a property with Mr Flower on his taking permanent residence in England. The subsidiary's investment was £180,000. Under the Agreement Mr Flower has the option to purchase the Group's interest at market value. The Group's investment was reduced to £75,000 in January 1994 following partial exercise of Mr Flower's option. In 1999, the Company, through a subsidiary, acquired a joint interest in properties with Mr Lea and Mr Anderson, respectively. The subsidiary's investment in both cases was £75,000 and Messrs Lea and Anderson have an option to purchase the Group's interest at market value.

None of the Directors has or had any interest in the preference share capital of the Company or of the shares of any of its subsidiaries.

Number of options Director	At 1 Jan 2001 or date of appointment if later	Granted in year	Exercised	Lapsed	As at 31 Dec 2001	Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
M C Flower								
Options granted since 01/01/1998	720,800	600,000	–	–	1,320,800	46.20p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	376,050	–	–	40,551	335,499	187.26p	21.10.95 to 17.03.00	21.10.02 to 17.03.07
SAYE	7,237	–	–	–	7,237	143.00p	01.09.01	01.03.02
	1,104,087	600,000	–	40,551	1,663,536			
J D Lea								
Options granted since 01/01/1998	170,000	500,000	–	–	670,000	48.90p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	65,275	–	–	–	65,275	156.22p	21.10.95 to 17.09.00	21.10.02 to 17.09.07
SAYE	–	–	–	–	–			
	235,275	500,000	–	–	735,275			
Totals	1,339,362	1,100,000	–	40,551	2,398,811			

Mr Flower's SAYE option over 7,237 Ordinary shares lapsed on 1 March 2002.

On 1 January 2001 Mr Hartley and Ms Kantor had options over 928,209 and 1,757,185 Ordinary shares respectively which were outstanding or exercisable on their retirement.

On the date of his appointment, 1 January 2002, Mr Anderson had the following options over Ordinary shares.

		Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
B G F Anderson				
Options granted since 01/01/1998	670,000	48.90p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	50,275	179.11p	21.10.95 to 17.09.00	21.10.02 to 17.09.07
SAYE	15,681	110.00p	01.07.02	01.01.03
Total	735,956			

The closing middle market share price at 31 December 2001 was 47.25p (2000 – 38.50p) and the range during the year was 38.50p to 58.50p.

We have audited the financial statements of Coats plc for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 31 together with the reconciliation of net cash flow to movement in net debt, analysis of free cash flow and reconciliation of movements in shareholders’ funds. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

As described in the statement of Directors’ responsibilities, the Company’s Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors’ report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors’ remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group’s corporate governance procedures or its risk and control procedures.

We read the Directors’ report and the other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

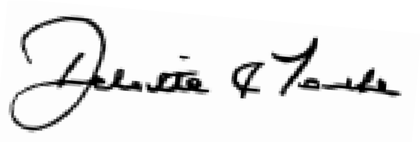
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors
201 Deansgate
Manchester
M60 2AT
5 March 2002

30 Consolidated profit and loss account

For the year ended 31 December 2001	Notes	2001 Before exceptional items £m	2001 Exceptional items £m	2001 Total £m	2000 (Restated) Before exceptional items £m	2000 (Restated) Exceptional items £m	2000 (Restated) Total £m
Turnover	1&2						
Continuing operations		**1,212.6**	**–**	**1,212.6**	1,261.9	–	1,261.9
Discontinued operations		**34.4**	**–**	**34.4**	334.2	–	334.2
		1,247.0	**–**	**1,247.0**	1596.1	–	1596.1
Cost of sales	1&3	**(779.1)**	**(31.5)**	**(810.6)**	(1039.7)	(35.4)	(1,075.1)
Gross profit		**467.9**	**(31.5)**	**436.4**	556.4	(35.4)	521.0
Distribution costs	1	**(287.1)**	**–**	**(287.1)**	(330.6)	–	(330.6)
Administrative expenses	1&3	**(116.9)**	**(1.0)**	**(117.9)**	(146.8)	(1.5)	(148.3)
Other operating income	1&3	**4.5**	**–**	**4.5**	8.3	–	8.3
Operating profit	1,2&3	**68.4**	**(32.5)**	**35.9**	87.3	(36.9)	50.4
Continuing operations		**68.8**	**(32.4)**	**36.4**	95.2	(23.8)	71.4
Discontinued operations		**(0.4)**	**(0.1)**	**(0.5)**	(7.9)	(13.1)	(21.0)
Share of operating profits of associated companies		**0.6**	**–**	**0.6**	0.6	–	0.6
Profit on sale of fixed assets of continuing operations		**–**	**9.2**	**9.2**	–	2.0	2.0
Profit on sale of fixed assets of discontinued operations		**–**	**4.4**	**4.4**	–	2.5	2.5
(Losses) on sale or termination of continuing operations		**–**	**(24.1)**	**(24.1)**	–	(0.7)	(0.7)
(Losses) on sale or termination of discontinued operations		**–**	**(2.7)**	**(2.7)**	–	(85.0)	(85.0)
Profit/(loss) on ordinary activities before interest		**69.0**	**(45.7)**	**23.3**	87.9	(118.1)	(30.2)
Interest receivable and similar income	6			**12.0**			8.5
Interest payable and similar charges	7			**(22.5)**			(28.6)
Net interest payable				**(10.5)**			(20.1)
Other finance income	29			**10.2**			19.2
Profit/(loss) on ordinary activities before taxation				**23.0**			(31.1)
Tax on profit/(loss) on ordinary activities	8			**(11.1)**			(16.8)
Profit/(loss) on ordinary activities after taxation				**11.9**			(47.9)
Equity minority interests				**(1.3)**			(14.8)
Profit/(loss) for the financial year	9			**10.6**			(62.7)
Preference dividends on non-equity shares				**(0.7)**			(0.7)
Profit/(loss) attributable to Ordinary shareholders				**9.9**			(63.4)
Ordinary dividends on equity shares	10			**(21.1)**			(21.1)
Transferred (from) reserves	24			**(11.2)**			(84.5)
Basic earnings/(loss) per Ordinary share of 20p	11			**1.4p**			(9.0)p
Headline earnings per Ordinary share of 20p	11			**2.8p**			3.9p

Movements in reserves appear on page 53.

The notes on pages 37 to 62 form part of these accounts.

Balance sheets

At 31 December 2001	Notes	Group 2001 £m	Group 2000 Restated £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Goodwill	21	**51.8**	58.4	**–**	–
Negative goodwill	21	**(4.7)**	–	**–**	–
Tangible assets	12	**402.5**	421.6	**–**	–
Investments	13	**6.3**	5.0	**2,116.7**	2,076.1
		455.9	485.0	**2,116.7**	2,076.1
Current assets					
Stocks	14	**291.9**	304.2	**–**	–
Debtors due within one year	15	**239.0**	313.6	**5.0**	22.2
Debtors due in more than one year	15	**16.2**	13.3	**0.7**	–
Investments	16	**24.5**	20.2	**–**	–
Cash at bank and in hand	19	**88.9**	106.8	**19.7**	20.5
		660.5	758.1	**25.4**	42.7
Less:					
Creditors – amounts falling due within one year					
Bank overdrafts	19	**24.9**	31.5	**22.6**	14.6
Other creditors	17	**360.5**	428.2	**111.1**	149.2
		385.4	459.7	**133.7**	163.8
Net current assets/(liabilities)		**275.1**	298.4	**(108.3)**	(121.1)
Total assets less current liabilities		**731.0**	783.4	**2,008.4**	1,955.0
Creditors – amounts falling due after more than one year					
Other creditors	18	**(22.3)**	(28.0)	**(1,245.3)**	(1045.2)
Convertible debt	18	**(60.2)**	(60.1)	**(60.2)**	(60.1)
		(82.5)	(88.1)	**(1305.5)**	(1105.3)
Provisions for liabilities and charges	20	**(37.8)**	(56.3)	**(1.5)**	(4.1)
Net assets excluding pension assets and liabilities		**610.7**	639.0	**701.4**	845.6
Pension assets	29	**50.7**	51.7	**–**	–
Pension liabilities	29	**(52.9)**	(55.5)	**–**	–
Net assets including pension assets and liabilities		**608.5**	635.2	**701.4**	845.6
Capital and reserves					
Equity share capital	22	**141.1**	140.7	**141.1**	140.7
Non-equity share capital	22	**14.6**	14.6	**14.6**	14.6
Called up share capital		**155.7**	155.3	**155.7**	155.3
Share premium account	23	**206.7**	206.5	**206.7**	206.5
Other reserves	23	**34.1**	34.1	**35.6**	35.6
Pension reserve	23	**(2.2)**	(3.8)	**–**	–
Profit and loss account	24	**148.4**	164.8	**303.4**	448.2
Shareholders' funds		**542.7**	556.9	**701.4**	845.6
Equity minority interests	25	**65.8**	78.3	**–**	–
Total capital employed		**608.5**	635.2	**701.4**	845.6

Approved by the Board on 5 March 2002
Sir Harry Djanogly, Director
Mr Martin Flower, Director

The notes on pages 37 to 62 form part of these accounts.

Cash flow statement

For the year ended 31 December 2001	Notes	2001 £m	2000 £m
Net cash inflow from operating activities	31	**86.9**	73.3
Returns on investments and servicing of finance			
Interest received		**15.5**	5.4
Interest paid		**(17.4)**	(21.9)
Cost of financing convertible debt		**(3.8)**	(3.8)
Interest element of finance lease rental payments		**(0.7)**	(2.3)
Income from investments		**–**	0.9
Preference dividends paid		**(0.7)**	(0.7)
Dividends paid to minority shareholders		**(3.7)**	(4.5)
Net cash outflow for returns on investments and servicing of finance		**(10.8)**	(26.9)
Taxation		**(11.1)**	(14.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(54.7)**	(51.7)
Purchase of fixed asset investments		**(0.5)**	(0.1)
Sale of tangible fixed assets		**24.0**	19.5
Sale of fixed asset investments		**1.7**	1.3
Net cash outflow for capital expenditure and financial investment		**(29.5)**	(31.0)
Acquisitions and disposals			
Purchase of subsidiary undertakings	31	**(22.4)**	(3.7)
Net cash acquired with subsidiaries		**3.5**	–
Sale of subsidiary undertakings	31	**36.6**	34.1
Net (cash)/overdrafts disposed with subsidiaries		**(3.5)**	1.9
Sale of businesses held for resale		**–**	0.5
Net cash inflow for acquisitions and disposals		**14.2**	32.8
Equity dividends paid		**(21.1)**	(21.1)
Management of liquid resources			
Decrease in short term deposits		**1.8**	18.1
Purchase of current asset investments		**(1.7)**	(46.5)
Sale of current asset investments		**–**	27.2
Net cash inflow/(outflow) from management of liquid resources		**0.1**	(1.2)
Financing			
Issue of Ordinary share capital		**0.6**	–
Issue of shares to minorities		**0.1**	–
Decrease in borrowings	31	**(35.2)**	(33.7)
Net cash outflow from financing		**(34.5)**	(33.7)
(Decrease) in cash	31	**(5.8)**	(21.9)

Reconciliation of net cash flow to movement in net debt			
(Decrease) in cash		**(5.8)**	(21.9)
Cash outflow from change in debt and lease financing		**35.2**	33.7
Cash (inflow) from change in short term deposits		**(1.8)**	(18.1)
Change in net debt resulting from cash flows		**27.6**	(6.3)
New finance leases		**(0.3)**	–
Loan notes issued in respect of acquisitions		**(2.5)**	–
Loans and finance leases acquired with subsidiaries		**(0.4)**	0.2
Loans and finance leases disposed with subsidiaries		**–**	0.2
Other		**(0.1)**	(0.2)
Exchange		**(4.2)**	(17.0)
Decrease/(increase) in net debt		**20.1**	(23.1)
Net debt at 1 January		**(148.2)**	(125.1)
Net debt at 31 December	31	**(128.1)**	(148.2)

Analysis of free cash flow

For the year ended 31 December 2001	2001 £m	2000 £m
Net cash inflow from operating activities	**86.9**	73.3
Returns on investments and servicing of finance	**(10.8)**	(26.9)
Tax paid	**(11.1)**	(14.1)
Capital expenditure and financial investment	**(29.5)**	(31.0)
Free cash flow	**35.5**	1.3

Statement of total recognised gains and losses

For the year ended 31 December 2001	Notes	2001 £m	2000 Restated £m
Profit/(loss) for the financial year		**10.6**	(62.7)
Currency translation differences on foreign currency net investments		**(11.7)**	2.3
Actuarial (losses)/gains	29	**(4.4)**	4.9
Total recognised gains and losses relating to the year		**(5.5)**	(55.5)
Prior period adjustment	29	**(80.0)**	
Total gains and losses recognised since the last Annual Report		**(85.5)**	

Reconciliation of movements in shareholders’ funds

For the year ended 31 December 2001	Notes	2001 £m	2000 Restated £m
Profit/(loss) for the financial year		**10.6**	(62.7)
Dividends		**(21.8)**	(21.8)
		(11.2)	(84.5)
Other recognised gains and losses relating to the year		**(16.1)**	7.2
New share capital subscribed		**0.6**	–
Goodwill attributable to businesses sold or terminated		**12.5**	5.3
Net (reduction of) shareholders’ funds		**(14.2)**	(72.0)
Opening shareholders’ funds (see note)		**556.9**	628.9
Closing shareholders’ funds		**542.7**	556.9
Equity shareholders’ funds		**528.1**	542.3
Non-equity shareholders’ funds		**14.6**	14.6
		542.7	556.9

Note

	Notes	2001 £m	2000 Restated £m
Opening shareholders’ funds as reported		**633.6**	708.9
Prior period adjustment	29	**(76.7)**	(80.0)
Opening shareholders’ funds as restated		**556.9**	628.9

Statement of accounting policies

Basis of accounting
The financial statements have been prepared on the basis of historical cost and in accordance with applicable accounting standards. During the year the Group has adopted both FRS17 – Retirement Benefits and FRS18 – Accounting Policies. FRS17 is dealt with in the Pension accounting policy below. The adoption of FRS18 has had no effect on the current or prior year results.

Consolidation and results
For all subsidiary undertakings the accounts include the results for those companies controlled throughout the year or to the date of disposal or from the date of acquisition as appropriate.

Where local fiscal and company legislation prevents foreign subsidiaries and associated companies from complying with the Group's accounting policies, adjustments are made on consolidation to present the Group accounts on a consistent basis.

Acquisitions and disposals
In accordance with FRS6 and 7, on the acquisition of a business, including an interest in an associated company, fair values are attributed to the Group's share of the identifiable assets and liabilities of the business existing at the date of acquisition and reflecting the conditions at that date. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and, prior to 1 January 1998, was written off direct to reserves in the year of acquisition.

Following the issue of FRS10 – Goodwill and Intangible Assets, purchased goodwill arising after 1 January 1998 is capitalised and amortised to the profit and loss account over its estimated useful life which will not exceed twenty years. Negative goodwill is capitalised in accordance with FRS10 and is amortised over the expected useful lives of the non-monetary assets acquired. As a matter of accounting policy, goodwill written off directly to reserves prior to 1 January 1998 remains written off against reserves. In accordance with FRS11 – Impairment of Fixed Assets and Goodwill, any impairment of capitalised goodwill will be written off to the profit and loss account in the period in which the impairment is recognised.

The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business. A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased permanently prior to the approval of these financial statements.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end or related forward contract rates. Trading results are translated at the average rates of exchange for the year after eliminating the effects of hyper-inflation in certain countries by using an appropriate stable currency as the functional currency for operations in these countries. Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion or repayment of foreign currency borrowings are dealt with in the profit and loss account. Unrealised exchange differences arising on the translation of overseas net assets and matched long term foreign currency borrowings or forward exchange contracts are taken direct to reserves.

Turnover
All turnover and profit figures relate to external transactions and turnover represents the value of goods and services supplied net of returns.

Exceptional items
Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits and losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

Grants
Revenue based grants are credited against related expenditure.

Operating lease rentals
Rentals on operating leases are charged to profit and loss account in the year to which they relate.

Research and development expenditure
Expenditure is charged to profit and loss account in the year it is incurred.

Pensions and other post retirement benefits
It is the policy of the Group to comply with legal requirements and established practice in the various countries in which there are employees or former employees.

The Group has adopted FRS17 – Retirement Benefits in these accounts and comparative figures have been restated accordingly. Details of the effect of the change in accounting policy and the restatement of comparative figures are set out in note 29.

The Group operates various defined benefit and contribution pension schemes throughout the world. Contributions to the defined contribution schemes are charged to the accounts as incurred.

The defined benefits schemes provide benefits based on the final pensionable salary. The assets of most of the defined benefit schemes, particularly those in the UK and North America, are held separately from those of the Group. In certain countries in Europe, pension liabilities are unfunded and carried on the Company balance sheets.

Defined benefit pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Under FRS17, any surplus arising based on these valuations is restricted to the present value of any pension contribution holiday. No account is taken of any potential refund from the scheme as these can only be included once agreed by the trustees. The amount included in the accounts is defined as the recognised recoverable surplus.

The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in other finance income.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Liabilities for US post-retirement medical benefits have been accounted for in accordance with FRS17.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for impairment or estimated losses on disposal. Depreciation is provided to write off the cost of the assets by equal instalments over their expected useful lives.

The rates used are:

Freehold and long leasehold land	Nil
Freehold and long leasehold buildings	2%
Short leasehold property	Over period of lease

Motor vehicles	20%
Electronic office equipment	25%
All other plant and machinery	5% to 25%

Assets held under finance leases are included in tangible fixed assets at a value equal to the original cost incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors. The interest element is charged to profit and loss account under the reducing balance method.

Statement of accounting policies (continued)

Investments

Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been an impairment, in which case an appropriate adjustment is made.

Listed current asset investments are stated at the lower of cost or market value, and other current asset investments are stated at the lower of cost and estimated net realisable value.

Associated companies

Investments, excluding those classified as subsidiaries, are regarded as associated companies where the Group has a long term interest in more than 20% of the equity and exercises a significant influence over their affairs on a continuing basis. These are stated in the Consolidated Balance Sheet at the Group's share of net assets after adjustment for goodwill or discount on acquisition.

In accordance with FRS9 – Associates and Joint Ventures, the Group's share of associated companies' operating profits or losses, net interest and exceptional items are shown separately in the financial statements.

Stocks

Stocks are valued on bases consistent with those used in previous years at the lower of cost and net realisable value. Cost is the invoiced value of materials plus, in the case of work in progress and finished goods, labour and factory overheads based on a normal level of production.

Provisions

In accordance with FRS12, provisions are only made for losses arising as a result of restructuring when the Group is constructively obligated to implement the restructuring.

Deferred taxation

Provision is made for taxation liabilities which, under current legislation, are expected to crystallise in the foreseeable future.

Unrelieved advance corporation tax is carried forward only when it can be set against provisions for taxation or to the extent recoverable against tax liabilities in respect of the following period. No provision is made for taxation that would arise on the remittance of retained profits by overseas subsidiaries and associated companies subsequent to the balance sheet date as there is no present intention to remit these retained profits.

Capital instruments

Capital instruments are accounted for in accordance with the principles of FRS4 and are classified as equity share capital, non-equity share capital, minority interest or debt as appropriate. Convertible debt is separately disclosed and is regarded as debt unless conversion actually occurs. Provision is made for any accrued premium payable on redemption of redeemable debt or non-equity interests.

Capital instruments are initially carried at the amount of the net proceeds. The finance costs and issue expenses are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

Reporting the substance of transactions

In accordance with FRS5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

Liquid resources

The Group defines liquid resources as short term deposits and current asset investments maturing or capable of being realised within one year.

1 Continuing and discontinued operations and acquisitions	2001 Continuing £m	2001 Discontinued £m	2001 Total £m	2000 (Restated) Continuing £m	2000 (Restated) Discontinued £m	2000 (Restated) Total £m
Turnover	**1,212.6**	**34.4**	**1,247.0**	1,261.9	334.2	1,596.1
Cost of sales	**788.0**	**22.6**	**810.6**	796.9	278.2	1,075.1
Net operating expenses						
Distribution costs	**279.7**	**7.4**	**287.1**	280.9	49.7	330.6
Administrative expenses	**112.4**	**5.5**	**117.9**	116.0	32.3	148.3
Other operating income (note 3)	**(3.9)**	**(0.6)**	**(4.5)**	(3.3)	(5.0)	(8.3)
Total	**388.2**	**12.3**	**400.5**	393.6	77.0	470.6
Operating profit	**36.4**	**(0.5)**	**35.9**	71.4	(21.0)	50.4
Profit on sale of fixed assets	**9.2**	**4.4**	**13.6**	2.0	2.5	4.5
Sale or termination of operations:						
Losses	**(24.1)**	**(16.3)**	**(40.4)**	(0.7)	(129.1)	(129.8)
Gains	**–**	**13.6**	**13.6**	–	44.1	44.1
	(24.1)	**(2.7)**	**(26.8)**	(0.7)	(85.0)	(85.7)

During the year, the Group completed the disposals of all its Branded Clothing businesses and all Home Furnishings businesses other than the Dorma UK bedwear operations. A net loss of £2.7 million was incurred in respect of these disposals.

In accordance with FRS3, the results of these businesses for the respective periods to their dates of disposal have been shown as discontinued and prior year figures have been restated accordingly.

The loss on disposal of continuing operations primarily relates to the disposal of a US crafts business, Dimensions Inc, in June 2001 at a total loss of £11.8 million including £12.7 million of previously written-off goodwill, and the exit from apparel fabric manufacturing in Madura Coats Limited in India at a cost of £12.8 million. The balance represents net adjustments in respect of prior year disposals.

The losses in 2000 related to the Contract Clothing disposal and the gains in 2000 related to the India Garments and brand sales.

Acquisitions

All acquisitions during the year have been accounted for using the acquisition method. Principal acquisitions during the year were the industrial threads business of Dollfus Mieg et Cie, a French textile group with operations in Europe and South America in January, AL Paul Limited, a UK manufacturer of speciality braiding, mainly to the footwear industry, in April and the acquisition by way of a share buy back of part of the minority interest in Madura Coats Limited, India in November.

None of these acquisitions was material for the purposes of The Companies Act 1985, FRS3 or FRS6. The acquisitions in total contributed £39.9 million to turnover and £3.3 million to operating profit before exceptional items.

2 Analysis of turnover, operating profit and net assets	Turnover 2001 £m	Turnover 2000 £m	Operating profit 2001 £m	Operating profit 2000 Restated £m	Net assets 2001 £m	Net assets 2000 Restated £m
Product category:						
Thread						
UK and Europe	**325.9**	309.3	**18.1**	22.4	**133.9**	114.5
North America	**304.5**	345.7	**11.7**	38.1	**223.5**	240.7
South America	**103.7**	103.1	**12.6**	8.7	**78.8**	71.3
Asia	**203.8**	208.2	**29.5**	30.3	**151.4**	132.1
Central costs	**–**	–	**0.8**	(5.1)	**29.6**	55.6
Total Thread	**937.9**	966.3	**72.7**	94.4	**617.2**	614.2
India Textiles	**32.4**	52.2	**(2.3)**	(3.0)	**13.7**	32.0
Fashion Retail	**155.7**	148.5	**(2.3)**	2.5	**50.5**	52.1
Bedwear	**86.6**	94.9	**0.7**	1.3	**23.7**	28.1
Continuing operations	**1,212.6**	1,261.9	**68.8**	95.2	**705.1**	726.4
Discontinued operations	**34.4**	334.2	**(0.4)**	(7.9)	**0.7**	31.8
	1,247.0	1,596.1	**68.4**	87.3	**705.8**	758.2
Reorganisation costs and impairment of fixed assets			**(31.5)**	(35.4)		
Other exceptional items			**(1.0)**	(1.5)		
Operating profit			**35.9**	50.4		
Associated companies			**0.6**	0.6		
FRS3 exceptional items			**(13.2)**	(81.2)		
Profit/(loss) before interest			**23.3**	(30.2)		
Geographical analysis by location:						
United Kingdom	**277.2**	283.9	**(4.9)**	(3.5)	**137.1**	171.7
Rest of Europe	**260.1**	243.8	**20.2**	23.5	**92.0**	70.0
North America	**319.1**	360.5	**10.2**	37.9	**227.0**	243.6
South America	**103.7**	103.1	**12.6**	8.7	**78.8**	71.3
Africa, Asia, Australasia	**252.5**	270.6	**30.7**	28.6	**170.2**	169.8
Total continuing operations	**1,212.6**	1,261.9	**68.8**	95.2	**705.1**	726.4
Discontinued operations	**34.4**	334.2	**(0.4)**	(7.9)	**0.7**	31.8
Associated companies	**–**	–	**0.6**	0.6	**2.4**	3.1
	1,247.0	1,596.1	**69.0**	87.9	**708.2**	761.3
Reorganisation costs and impairment of fixed assets			**(31.5)**	(35.4)		
Other exceptional items			**(1.0)**	(1.5)		
			36.5	51.0		
FRS3 exceptional items			**(13.2)**	(81.2)		
Profit/(loss) before interest			**23.3**	(30.2)		
Net debt					**(128.1)**	(148.2)
Other fixed and current asset investments					**28.4**	22.1
Net assets per consolidated balance sheet					**608.5**	635.2
The geographical analysis of discontinued operations by location was:						
United Kingdom	**15.2**	277.9	**0.8**	(6.2)	**0.7**	24.8
Rest of Europe	**19.2**	56.2	**(1.2)**	(0.4)	**–**	7.0
Africa, Asia, Australasia	**–**	0.1	**–**	(1.3)	**–**	–
	34.4	334.2	**(0.4)**	(7.9)	**0.7**	31.8

Note

Following the incorporation of all central administrative functions within the Thread head office, the Corporate segment has been reallocated into Thread central costs along with existing Thread costs. The analysis of Thread operations has been changed to align more closely with the way in which they are managed and controlled.

The geographical analysis of turnover by destination has not been presented as it does not differ materially from the analysis by location.

3 Operating profit

	2001 £m	2000 Restated £m
Operating profit is stated after charging:		
Depreciation – Owned assets	**45.0**	52.8
– Leased assets	**0.5**	3.1
Amortisation of goodwill	**0.7**	3.0
Reorganisation costs	**31.6**	32.3
Impairment of fixed assets	**(0.1)**	3.1
Other exceptional items	**1.0**	1.5
Hire of plant and machinery	**6.4**	7.0
Other operating lease rentals	**20.8**	22.9
Research and development expenditure	**2.2**	2.6
Directors' remuneration (note 4)	**2.1**	1.7
Auditors' remuneration – Audit fees	**1.7**	1.8
– Non audit related fees – UK*	**4.6**	1.7
– Overseas	**0.2**	0.1

*Non audit fees principally relate to fees for advisory work in relation to the disposal process started in 2000 and competed in 2001.

	2001 £m	2000 Restated £m
and after crediting other operating income:		
Rental income net of expenses	**0.9**	0.9
Royalties and licensing income	**1.1**	5.0
Credit card income	**1.6**	1.7
Exchange gain	**0.9**	0.7
	4.5	8.3
Product category analysis of reorganisation costs and impairment of fixed assets		
Thread		
UK and Europe	**11.1**	8.6
North America	**10.5**	5.3
South America	**1.8**	1.1
Asia	**1.7**	2.0
Central costs	**0.6**	–
Total Thread	**25.7**	17.0
India Textiles	**–**	2.0
Fashion Retail	**4.1**	1.8
Bedwear	**1.6**	1.5
Continuing operations	**31.4**	22.3
Discontinued operations	**0.1**	13.1
Total	**31.5**	35.4
Analysis of other exceptional items		
(Gain)/loss net of estimated recoveries arising from accounting irregularities in a US subsidiary	**(0.1)**	0.6
Impairment of goodwill	**1.1**	–
Abortive disposal and demerger costs	**–**	0.7
US legal restructuring costs	**–**	0.2
Total	**1.0**	1.5

4 Directors' emoluments

	2001 £'000	2000 £'000
Aggregate emoluments	**1,040**	1,653
Compensation for loss of office	**1,013**	–
Total	**2,053**	1,653

Disclosures required by the Companies Act 1985 on directors' remuneration, including salaries, performance-related bonuses, share options, pension contributions and pension entitlements, and those specified for audit by the Financial Services Authority, are on pages 25 to 28 within the Report on Directors' remuneration and form part of these financial statements.

5 Employees

	2001 Number	2000 Number
The average numbers employed by the Group during the year were:		
Direct	**22,310**	28,928
Indirect	**5,291**	6,648
Staff	**12,069**	14,370
	39,670	49,946
Comprising:		
UK	**6,702**	13,231
Overseas	**32,968**	36,715
	39,670	49,946
The total numbers employed at the end of the year were:		
UK	**5,919**	8,394
Overseas	**31,162**	33,812
	37,081	42,206

The costs incurred in respect of these employees were:

		2001 £m	2000 £m Restated
Wages and salaries		**309.7**	414.6
Social security costs		**37.1**	44.2
Other pension costs (note 29):	included in operating profit	**15.5**	16.6
	included in other finance costs	**(10.2)**	(19.2)
	included in statement of total recognised gains and losses	**4.4**	(4.9)
		356.5	451.3

6 Interest receivable and similar income

	2001 £m	2000 £m
Interest receivable	**9.5**	8.4
Income from other fixed and current asset investments	**2.6**	0.9
Gain/(loss) on sale of other fixed and current asset investments	**0.6**	(0.1)
Gross interest receivable and similar income	**12.7**	9.2
Less: credit card interest transferred to other operating income	**(0.7)**	(0.7)
	12.0	8.5

7 Interest payable and similar charges

	2001 £m	2000 £m
Loans	**10.6**	12.0
Bank overdrafts and other borrowings	**6.9**	9.9
Discounting interest re onerous leasehold provisions	**0.1**	0.2
Finance leases	**0.7**	2.3
	18.3	24.4
Cost of financing convertible debt (note 18)	**3.9**	3.9
Share of net interest payable of associated companies	**0.3**	0.3
Total interest payable and similar charges	**22.5**	28.6
The above interest includes interest on borrowings not repayable in full within five years of:	**0.6**	4.6

8	Tax on profit on ordinary activities		2001 £m		2000 Restated £m
	UK taxation based on profit for the year:				
	Corporation tax at 30% (2000 – 30%)		**5.1**		8.3
	Double taxation relief		**(5.1)**		(8.3)
	Deferred taxation		**(1.4)**		(0.2)
	Prior year adjustments – Corporation tax	**0.8**		2.6	
	Deferred taxation	**0.9**		1.1	
	Advance corporation tax	**–**		(2.6)	
			1.7		1.1
			0.3		0.9
	Overseas taxation:				
	Current taxation		**8.9**		12.3
	Deferred taxation		**1.8**		3.5
			11.0		16.7
	Associated companies taxation		**0.1**		0.1
			11.1		16.8
	Excluding advance corporation tax movement, the UK charge for the year has been increased/(decreased) by:				
	Losses forward and capital allowances not dealt with in the deferred tax provision		**1.2**		6.8
	Transitional relief for foreign exchange gains/losses		**(1.1)**		(0.7)
	Other factors resulting in a tax charge disproportionate to the UK tax rate of 30% (2000 – 30%) are:				
	Gains on disposals in the year covered by reliefs		**(4.5)**		(10.4)
	Loss on disposal of shares in subsidiary companies not eligible for relief		**11.1**		33.3
	Effect of (lower)/higher tax rates overseas		**(1.0)**		(2.1)
	Tax arising on remittance of overseas profits (net of ACT)		**1.4**		2.1
	Unrelieved overseas losses		**1.5**		4.4
	Tax attributable to the profits on sale of fixed assets amounts to:		**0.2**		0.3
	Tax attributable to impairment of fixed assets and goodwill		**0.2**		–
	Tax (relief) attributable to reorganisation costs		**(3.7)**		(6.9)
	(Relief) attributable to the (loss) on sale or termination of operations amounts to:		**(0.6)**		(2.5)

9	Profit for the year	2001 £m	2000 £m
	The Company's (loss)/profit for the financial year was	**(122.9)**	41.2

Under the provisions of Section 230 Companies Act 1985 a Profit and Loss Account for the Company is not presented.

10	Ordinary dividends	2001	2000	2001 £m	2000 £m
	Ordinary shares (equity shares)				
	Interim	**1.50p**	1.50p	**10.6**	10.6
	Final	**1.50p**	1.50p	**10.5**	10.5
		3.00p	3.00p	**21.1**	21.1

The interim dividend of 1.5p net per share was paid on 4 January 2002.

The final dividend of 1.5p net per share will be paid on 1 July 2002 to shareholders on the register on 31 May 2002.

11 Earnings/(loss) per share	2001	2000	2001 £m	2000 Restated £m
Earnings/(loss) per share are based on profit/(loss) available for Ordinary shareholders of:			**9.9**	(63.4)
and on average number of shares of:	**703.6m**	702.6m		
resulting in basic and diluted earnings/(loss) per share of:	**1.4p**	(9.0)p		
Less: amortisation of goodwill	**0.1p**	0.4p	**0.7**	3.0
impairment of goodwill	**0.2p**	–	**1.1**	–
profit on sale of fixed assets	**(1.9)p**	(0.6)p	**(13.6)**	(4.5)
losses on sale or termination of operations	**3.8p**	12.2p	**26.8**	85.7
taxation relating to these items	**(0.1)p**	(0.3)p	**(0.4)**	(2.5)
minority interests relating to these items	**(0.7)p**	1.2p	**(5.1)**	8.8
Headline earnings per share	**2.8p**	3.9p	**19.4**	27.1

Headline earnings per share have been calculated in accordance with Statement of Investment Practice Number 1 issued by The Institute of Investment Management and Research and are provided in order to assist users of accounts to identify earnings derived from trading activities.

Exercise of outstanding share options and conversion of all the £60.461 million 6.25% Senior Convertible Bonds of Coats plc would not result in any dilution of earnings per share.

12 Tangible assets	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Group			
Cost			
At beginning of year	**230.3**	**705.6**	**935.9**
Exchange difference	**0.7**	**2.9**	**3.6**
Subsidiaries acquired	**2.1**	**4.9**	**7.0**
Subsidiaries disposed	**(5.1)**	**(54.5)**	**(59.6)**
Additions	**3.6**	**51.3**	**54.9**
Disposals	**(20.3)**	**(48.5)**	**(68.8)**
At 31 December 2001	**211.3**	**661.7**	**873.0**
Depreciation			
At beginning of year	**78.9**	**435.4**	**514.3**
Exchange difference	**0.4**	**1.2**	**1.6**
Subsidiaries acquired	**0.1**	**0.6**	**0.7**
Subsidiaries disposed	**(1.8)**	**(39.1)**	**(40.9)**
Charge for the year	**5.8**	**39.7**	**45.5**
Impairment of fixed assets	**(0.3)**	**0.2**	**(0.1)**
Disposals	**(8.5)**	**(42.1)**	**(50.6)**
At 31 December 2001	**74.6**	**395.9**	**470.5**
Net book value			
At 31 December 2001	**136.7**	**265.8**	**402.5**
At beginning of year	151.4	270.2	421.6

12 Tangible assets (continued)

Land and buildings	2001 £m	2000 £m
Cost		
Freehold	**173.1**	188.0
Long leasehold	**14.3**	15.3
Short leasehold	**23.9**	27.0
	211.3	230.3
Accumulated depreciation		
Freehold	**59.1**	61.7
Long leasehold	**3.9**	4.0
Short leasehold	**11.6**	13.2
	74.6	78.9

The cost of long leasehold land and buildings includes capitalised interest of £1.4 million (2000 – £1.4 million).

Plant, machinery and vehicles

The net book value of capitalised finance leases included in plant, machinery and vehicles is £1.5 million (2000 – £5.9 million).

13 Investments	Associated companies £m	Other £m	Total £m
Group			
Cost			
At beginning of year	**0.9**	**21.3**	**22.2**
Exchange	**–**	**0.5**	**0.5**
Additions	**–**	**2.6**	**2.6**
Disposals	**(0.2)**	**(15.7)**	**(15.9)**
At 31 December 2001	**0.7**	**8.7**	**9.4**
Provisions			
At beginning of year	**–**	**(19.4)**	**(19.4)**
Exchange	**–**	**(0.3)**	**(0.3)**
Disposals	**–**	**14.9**	**14.9**
At 31 December 2001	**–**	**(4.8)**	**(4.8)**
Share of profits/(losses) retained			
At beginning of year	**2.2**		**2.2**
Disposals	**(0.5)**		**(0.5)**
At 31 December 2001	**1.7**		**1.7**
Net book value			
At 31 December 2001	**2.4**	**3.9**	**6.3**
At beginning of year	3.1	1.9	5.0
Including investments listed on a recognised Stock Exchange			
At 31 December 2001	**–**	**2.5**	**2.5**
At beginning of year	–	0.4	0.4

Other fixed asset investments include an investment of £0.3 million (£0.4 million 2000) in the Company's own shares as part of the Long Term Incentive Plan referred to on page 25 of the Report on Directors' Remuneration.

13 Investments (continued)	Subsidiaries Shares £m	Subsidiaries Loans £m	Other fixed asset investments £m	Total £m
Company				
Cost				
At beginning of year	**1,763.5**	**312.7**	**6.7**	**2,082.9**
Additions	**204.0**	**351.1**	**–**	**555.1**
Group transfers	**(344.0)**	**–**	**–**	**(344.0)**
Disposals	**(1.3)**	**–**	**(0.5)**	**(1.8)**
Repaid	**–**	**(170.2)**	**–**	**(170.2)**
At 31 December 2001	**1,622.2**	**493.6**	**6.2**	**2,122.0**
Provisions				
At beginning of year	**(1.3)**	**–**	**(5.5)**	**(6.8)**
Disposals	**1.3**	**–**	**0.2**	**1.5**
At 31 December 2001	**–**	**–**	**(5.3)**	**(5.3)**
Net book value				
At 31 December 2001	**1,622.2**	**493.6**	**0.9**	**2,116.7**
At beginning of year	1,762.2	312.7	1.2	2,076.1

Principal subsidiary undertakings are listed on page 63.

Loans to subsidiaries include £2.4 million in respect of back-to-back finance leases. The maturity profile of these leases is shown in note 18.

14 Stocks	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Raw materials and consumables	**66.7**	68.1	**–**	–
Work in progress	**67.9**	72.6	**–**	–
Finished goods and goods for resale	**157.3**	163.5	**–**	–
	291.9	304.2	**–**	–

15 Debtors	Group 2001 £m	Group 2000 Restated £m	Company 2001 £m	Company 2000 £m
Debtors due within one year:				
Trade debtors	**185.7**	218.8	**0.1**	0.1
Amounts owed by subsidiaries	**–**	–	**3.5**	2.2
Amounts owed by associated companies	**1.5**	0.6	**–**	–
Corporation and overseas tax recoverable	**12.1**	15.2	**0.6**	1.8
Other debtors	**28.4**	63.3	**0.5**	16.9
Prepayments and accrued income	**11.3**	15.7	**0.3**	1.2
	239.0	313.6	**5.0**	22.2
Debtors due in more than one year:				
Trade debtors	**1.0**	1.3	**–**	–
Other debtors	**15.0**	11.8	**0.7**	–
Prepayments and accrued income	**0.2**	0.2	**–**	–
	16.2	13.3	**0.7**	–

16 Current asset investments	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Listed investments	**23.8**	19.1	**–**	–
Unlisted investments	**0.7**	1.1	**–**	–
	24.5	20.2	**–**	–
Market value of listed investments	**25.4**	19.0	**–**	–

17 Creditors (amounts falling due within one year)	Group 2001 £m	Group 2000 Restated £m	Company 2001 £m	Company 2000 £m
Trade creditors	**105.1**	113.3	**0.1**	0.1
Loans and loan stock (note 19)	**117.0**	124.2	**76.5**	93.2
Amounts owed to subsidiaries	**–**	–	**0.1**	–
Amounts owed to associated companies	**0.4**	0.3	**–**	–
Bills of exchange	**8.2**	13.6	**–**	–
Corporation tax and overseas taxation	**22.3**	25.7	**10.0**	10.0
Other taxation and social security	**23.4**	19.9	**–**	–
Other creditors	**21.5**	32.9	**0.4**	0.8
Accruals and deferred income	**37.7**	52.9	**2.4**	3.7
Proposed dividends	**21.1**	21.1	**21.1**	21.1
Finance lease obligations (note 18)	**0.8**	20.9	**0.5**	20.3
Leaving indemnities (note 20)	**3.0**	3.4	**–**	–
	360.5	428.2	**111.1**	149.2

18 Creditors (amounts falling due after more than one year)	Group 2001 £m	Group 2000 Restated £m	Company 2001 £m	Company 2000 £m
Other creditors				
Trade creditors	**0.7**	0.6	**–**	–
Loans and loan stock (note 19)	**10.7**	10.9	**–**	–
Amounts owed to subsidiaries	**–**	–	**1,243.2**	1,037.4
Payments in advance	**–**	0.7	**–**	–
Other creditors	**5.0**	7.3	**0.2**	–
Accruals and deferred income	**2.5**	1.1	**–**	1.8
Finance lease obligations	**3.4**	7.4	**1.9**	6.0
	22.3	28.0	**1,245.3**	1,045.2

The amounts owed to subsidiaries have no specified dates of repayment but are only repayable on receipt of twelve months' notice and do not bear interest.

Finance lease obligations are repayable as follows:				
Within one year	**0.8**	20.9	**0.5**	20.3
Between one and two years	**1.0**	1.9	**0.7**	1.6
Between two and five years inclusive	**1.5**	4.0	**0.9**	3.5
Over five years	**0.9**	1.5	**0.3**	0.9
	4.2	28.3	**2.4**	26.3
Convertible debt				
Coats plc – £60.461 million 6.25% Senior Convertible Bonds due 2003 (see note)	**60.2**	60.1	**60.2**	60.1

Note

On 9 August 1993, Coats plc issued £75.625 million 6.25% Senior Convertible Bonds.

As a result of redemptions and conversions since the issue the value of bonds currently in issue is £60.461 million.

These bonds are convertible into Ordinary shares of Coats plc at a price of 270p per share at any time up to 2 August 2003. The conversion price was adjusted in accordance with the Trust Deed with effect from 17 May 1994 as a result of the dilution effect of the enhanced share dividend. The bonds then outstanding will be redeemed at their principal value on 9 August 2003. The Company has the power to redeem the bonds in whole or in part at any time after 31 August 1998.

In accordance with FRS4, the expenses of the issue have been deducted from the gross proceeds of the issue and, together with the finance costs, are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

19 Borrowings and financial instruments

(a) Loans and loan stock

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Loans	**118.5**	125.9	**76.5**	93.2
Loan stock	**9.2**	9.2	**–**	–
	127.7	135.1	**76.5**	93.2
Repayable within one year	**(117.0)**	(124.2)	**(76.5)**	(93.2)
Amounts falling due after more than one year	**10.7**	10.9	**–**	–
Repayable as follows:				
Between one and two years	**0.9**	0.2	**–**	–
Between two and five years	**0.6**	1.3	**–**	–
After five years	**9.2**	9.4	**–**	–
	10.7	10.9	**–**	–

Loans

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Repayable within five years:				
Bank loans	**112.0**	121.6	**73.1**	89.6
Other loans	**6.1**	3.6	**3.4**	3.6
Not wholly repayable within five years:				
Bank loans	**0.4**	0.5	**–**	–
Other loans	**–**	0.2	**–**	–
	118.5	125.9	**76.5**	93.2
Amounts repayable by instalments which in part fall due after more than five years	**–**	0.7	**–**	–
Instalments falling due after more than five years	**–**	0.2	**–**	–
Loans repayable after one year:				
Various:				
Other (all below £1.0 million equivalent)	**1.5**	1.7	**–**	–
	1.5	1.7	**–**	–

The rates of interest paid on the above loans conform to the terms ruling in each country and the repayment dates extend to 2007.

Loan stock

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Not wholly repayable within five years:				
Coats Patons Limited 6.75% unsecured stock 2002/2007	**6.5**	6.5	**–**	–
Coats Patons Limited 4.5% unsecured stock 2002/2007	**2.7**	2.7	**–**	–
	9.2	9.2	**–**	–

Net debt

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Loans and loan stock	**127.7**	135.1	**76.5**	93.2
Bank overdrafts	**24.9**	31.5	**22.6**	14.6
Lease finance	**4.2**	28.3	**2.4**	26.3
	156.8	194.9	**101.5**	134.1
Convertible debt	**60.2**	60.1	**60.2**	60.1
Total borrowings	**217.0**	255.0	**161.7**	194.2
Cash and short term deposits	**(88.9)**	(106.8)	**(19.7)**	(20.5)
Net debt	**128.1**	148.2	**142.0**	173.7

19 Borrowings and financial instruments (continued)

(a) Loans and loan stock (continued)

	Group 2001 £m	Group 2000 £m
Maturity of debt		
Total borrowings are repayable as follows:		
Within one year	**142.7**	176.7
Between one and two years	**62.1**	2.0
Between two and five years	**2.1**	65.4
After five years	**10.1**	10.9
	217.0	255.0
Total secured indebtedness	**9.3**	8.5
Total indebtedness guaranteed by parent company	**25.1**	17.7

(b) Financial instruments

Group

The Group's policies as regards derivatives and other financial information are set out in the Financial review on pages 16 to 18 and the Statement of accounting policies on pages 34 to 36. The Group does not trade in financial instruments.

Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

Details of non-equity shares issued by the Group are given in note 22.

Maturity profile of financial liabilities

The maturity profile of the Group's total borrowings is stated in note 19(a). Total borrowings include the Group's finance lease obligations and convertible debt; the payment profile of both these liabilities is further analysed in note 18.

The 4.9% Cumulative Preference shares issued by Coats plc are not redeemable (see note 22).

At 31 December 2001 the Group had undrawn committed borrowing facilities of £86.5 million (2000 – £55.0 million) expiring in more than one year.

	2001 £m	2000 Restated £m
Currency analysis of net assets		
Sterling	**172.1**	196.5
US Dollar and dollar related	**290.7**	350.2
Euro	**72.4**	42.1
Indian rupee	**44.3**	59.0
Other	**126.3**	110.4
	705.8	758.2

Interest rate profile

The interest rate and currency profile of the Group's financial liabilities and assets by principle currency is stated after taking into account the various interest rate and currency swaps entered into by the Group.

In this analysis, fixed rate financial liabilities and assets are defined as those where the interest rate is fixed for a period of more than one year from the balance sheet date.

Financial liabilities

31 December 2001	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling cross currency swaps	**–**	**(172.5)**	**–**	**(172.5)**
Sterling	**71.8**	**21.7**	**–**	**93.5**
US dollar and dollar related	**42.0**	**202.5**	**–**	**244.5**
Euro	**3.5**	**11.9**	**0.2**	**15.6**
Other	**1.3**	**34.6**	**–**	**35.9**
Gross financial liabilities	**118.6**	**98.2**	**0.2**	**217.0**

19 Borrowings and financial instruments (continued)

(b) Financial instruments (continued)

31 December 2001	Fixed rate Weighted average interest rate %	Fixed rate Weighted average period for which the rate is fixed Years	Non-interest bearing Weighted average period until maturity Years
Sterling	**6.3**	**2.2**	**–**
US dollar	**4.7**	**3.5**	**–**
Euro	**5.3**	**3.0**	**2.8**
Other	**10.2**	**2.6**	**–**

Interest on floating rate liabilities is based on the relevant inter bank offered rate.

31 December 2000	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling cross currency swaps	–	(456.6)	–	(456.6)
Sterling	74.5	118.8	–	193.3
US dollar and dollar related	12.4	411.9	–	424.3
Euro	3.2	58.2	0.2	61.6
Other	1.5	29.8	1.1	32.4
Gross financial liabilities	91.6	162.1	1.3	255.0

	Fixed rate Weighted average interest rate %	Fixed rate Weighted average period for which the rate is fixed Years	Non-interest bearing Weighted average period until maturity Years
Sterling	6.4	3.1	–
US dollar and dollar related	9.0	2.7	–
Euro	5.4	4.0	3.1
Other	7.7	2.7	–

Interest on floating rate liabilities is based on the relevant inter bank offered rate.

Financial assets

31 December 2001	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling cross currency swaps	**–**	**(33.7)**	**–**	**(33.7)**
Sterling	**–**	**11.4**	**–**	**11.4**
US dollar and dollar related	**–**	**33.0**	**1.2**	**34.2**
Euro	**–**	**47.9**	**2.3**	**50.2**
Other	**–**	**17.8**	**9.0**	**26.8**
Gross financial assets	**–**	**76.4**	**12.5**	**88.9**
31 December 2000				
Sterling cross currency swaps	–	(42.0)	–	(42.0)
Sterling	–	17.2	0.1	17.3
US dollar and dollar related	–	34.1	3.4	37.5
Euro	–	55.4	1.7	57.1
Other	–	23.3	13.6	36.9
Gross financial assets	–	88.0	18.8	106.8

Interest on floating rate bank deposits is based on the relevant national inter bank rates and is fixed in advance for periods of up to one year.

All of the non-interest bearing financial assets mature within one week of the balance sheet date.

(b) Financial instruments (continued)

Fair values of financial assets and liabilities

Set out below is a comparison by category of book value and estimated fair value of the Group's financial assets and liabilities:

	2001 Book value £m	2001 Estimated fair value £m	2000 Book value £m	2000 Estimated fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Cash and short term deposits	**(88.9)**	**(88.9)**	(106.8)	(106.8)
Loans and loan stocks	**127.7**	**127.6**	135.1	134.0
Lease finance	**4.2**	**4.3**	28.3	28.5
Convertible debt	**60.2**	**59.8**	60.1	54.5
Bank overdrafts	**24.9**	**24.9**	31.5	31.5
	217.0	**216.6**	255.0	248.5
Derivative financial instruments held to manage the Group's interest rate and currency profile:				
Forward foreign exchange contracts	**(1.4)**	**(1.3)**	(18.8)	(20.9)
Interest rate cross currency swaps	**0.4**	**(0.3)**	2.8	3.7
	(1.0)	**(1.6)**	(16.0)	(17.2)
Coats plc 4.9% Cumulative Preference shares	**14.6**	**11.1**	14.6	11.3

Market values have been used to determine the estimated fair values of forward exchange contracts, all swaps and listed instruments held or issued. The estimated fair value of all other items has been calculated by discounting expected cash flows at the interest rates prevailing at the year end.

Hedging

The aggregate unrecognised gain at 31 December 2001, being the difference between book value and estimated fair value of the above derivative financial instruments, is £0.6 million (2000 – £1.2 million). Of this approximately £0.3 million gain will be recognised in the profit and loss account for the year ending 31 December 2002 (2000 – approximately £1.1 million gain).

Currency profile

The main functional currencies of the Group are sterling, US dollar and the various European currencies now participating in the euro. The following analysis of net monetary assets and liabilities shows the Group's currency exposures after the effects of forward contracts and other financial derivatives used to manage the currency exposure. The amounts shown represent the transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group which are not denominated in the functional currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations.

31 December 2001	Sterling £m	US Dollar £m	Euro £m	Other £m	Total £m
Sterling	**–**	**(1.6)**	**2.4**	**0.3**	**1.1**
US dollar	**–**	**–**	**(2.1)**	**0.4**	**(1.7)**
Euro	**(0.4)**	**(0.3)**	**–**	**0.2**	**(0.5)**
Other	**0.9**	**2.8**	**4.8**	**(1.1)**	**7.4**
	0.5	**0.9**	**5.1**	**(0.2)**	**6.3**
31 December 2000					
Sterling	–	(0.2)	0.8	0.5	1.1
US dollar	0.6	–	(0.8)	(0.1)	(0.3)
Euro	0.3	(0.1)	–	0.6	0.8
Other	(0.3)	9.6	2.5	0.1	11.9
	0.6	9.3	2.5	1.1	13.5

( ) represents uncovered monetary liabilities.

20 Provisions for liabilities and charges	Group 2001 £m	Group 2000 Restated £m	Company 2001 £m	Company 2000 £m
Deferred taxation	**(2.8)**	(1.9)	**–**	–
Other provisions	**40.6**	58.2	**1.5**	4.1
	37.8	56.3	**1.5**	4.1

Deferred taxation	2001 £m	2000 Restated £m
At beginning of year	**(1.9)**	(1.3)
Subsidiaries disposed	**(0.9)**	(0.2)
Movement in period – Exchange difference	**(0.3)**	(0.3)
– Foreign companies	**1.8**	3.5
– UK companies	**(0.5)**	0.9
– Transfer to pension assets/liabilities	**(1.1)**	(4.5)
– Transfer to current tax	**0.1**	–
At 31 December 2001	**(2.8)**	(1.9)
Deferred taxation, representing a full provision calculated at 30% (2000 – 30%) for UK companies, is as follows:		
United Kingdom		
Capital allowances	**1.3**	2.7
Other timing differences less losses forward	**(1.6)**	(1.6)
	(0.3)	1.1
Overseas	**(2.5)**	(3.0)
	(2.8)	(1.9)
In addition there are:		
Tax on unutilised losses forward	**14.4**	16.5
Unrecovered advance corporation tax	**63.0**	69.3

No provision is required in the Company for deferred tax.

Other provisions	Group Closures and reorganisation £m	Group Leaving indemnities £m	Group 2001 Total £m	Group 2000 Total Restated £m	Company 2001 Total £m	Company 2000 Total £m
At beginning of year	**55.1**	**3.1**	**58.2**	42.8	**4.1**	4.0
Exchange difference	**(0.2)**	**–**	**(0.2)**	0.7	**–**	–
Subsidiaries acquired	**0.3**	**1.9**	**2.2**	0.1	**–**	–
Subsidiaries disposed	**–**	**–**	**–**	(9.7)	**–**	–
Provided – reorganisations	**31.6**	**–**	**31.6**	31.7	**–**	–
– sale or termination of operations	**40.5**	**–**	**40.5**	129.8	**4.2**	3.9
– discounting interest	**0.1**	**–**	**0.1**	0.2	**–**	–
– other	**3.5**	**–**	**3.5**	5.5	**–**	–
Utilised	**(95.3)**	**–**	**(95.3)**	(142.9)	**(6.8)**	(3.8)
At 31 December 2001	**35.6**	**5.0**	**40.6**	58.2	**1.5**	4.1

Provisions for reorganisations and closures will usually be utilised within one year.

Leaving indemnities

In many countries including India and much of South America, there are legal requirements to make payments to employees on the termination of their employment by retirement, redundancy, or otherwise. These payments are commonly based on the number of years service with the Company that each employee has. The Group's policy is to accrue for this liability on a service basis and to charge amounts actually paid out against the provisions. The resultant provisions are included above under the heading "leaving indemnities".

20 Provisions for liabilities and charges (continued)

The maturity profile of provisions for leaving indemnities is as follows:

	2001 £m	2000 £m
Payable between one and two years	**0.6**	0.1
Payable between two and five years	**0.9**	1.1
Payable in more than five years	**3.5**	1.9
	5.0	3.1

21 Goodwill

The fair values attributed to the net tangible assets acquired during the year were:	Book value £m	Fair value adjustments £m	Fair value to the Group £m
Fixed assets	**8.0**	**(1.7)**	**6.3**
Current assets	**26.8**	**(2.4)**	**24.4**
Creditors and provisions	**(13.0)**	**(0.4)**	**(13.4)**
Cash	**3.5**	**–**	**3.5**
Other borrowings	**(0.4)**	**–**	**(0.4)**
Minority interest	**10.5**	**–**	**10.5**
	35.4	**(4.5)**	**30.9**
Fair value of consideration: cash			**22.3**
loan notes			**2.5**
			24.8
Goodwill arising during the year			**(6.1)**
positive			**1.2**
negative			**(7.3)**
			(6.1)

The fair value adjustments principally relate to alignment of accounting policies.

The goodwill capitalised in the balance sheet is as follows:

Positive goodwill	Cost £m	Amortisation and impairment £m	Net £m
At beginning of year	**62.6**	**4.2**	**58.4**
Exchange	**0.2**	**–**	**0.2**
Acquisitions	**1.2**	**–**	**1.2**
Amortised in the year	**–**	**3.2**	**(3.2)**
Impairment	**–**	**1.1**	**(1.1)**
Disposals	**(3.7)**	**–**	**(3.7)**
Carried forward at 31 December 2001	**60.3**	**8.5**	**51.8**

Goodwill arising during the year amounting to £0.5 million in respect of minority interests has been written off during the year. The balance has been capitalised in accordance with FRS10 and will be amortised over 20 years.

Negative goodwill			
At beginning of year	**–**	**–**	**–**
Exchange	**(0.2)**	**(0.1)**	**(0.1)**
Acquisitions	**7.3**	**–**	**7.3**
Amortised in the year	**–**	**2.5**	**(2.5)**
Carried forward at 31 December 2001	**7.1**	**2.4**	**4.7**

Of the negative goodwill arising during the year, £1.9 million has been identified as relating to working capital and released during the year. The balance has been capitalised in accordance with FRS10 and will be amortised over 10 years.

Purchased goodwill attributable to businesses sold or terminated during the year amounted to £12.5 million (2000 – £5.3 million). The cumulative amount of goodwill charged to reserves is £192 million net of amounts attributable to companies sold (2000 – £205 million).

22 Called up share capital

	Number of shares	2001 £m	Number of shares	2000 £m
Authorised:				
Ordinary shares of 20p each	**876,952,750**	**175.4**	876,952,750	175.4
4.9% Cumulative Preference shares of £1 each	**14,609,450**	**14.6**	14,609,450	14.6
		190.0		190.0
Allotted and fully paid:				
Ordinary shares of 20p each – equity shares	**705,360,873**	**141.1**	703,623,098	140.7
4.9% Cumulative Preference shares of £1 each – non equity shares	**14,609,449**	**14.6**	14,609,449	14.6
		155.7		155.3

The 4.9% Cumulative Preference shares of £1 each confer on the holders thereof the right to receive a cumulative preferential dividend at the rate of 4.9% on the capital for the time being paid up thereon and the right on a winding up or repayment of capital to a return of the capital paid thereon (together with a premium calculated at the rate of £0.125 for every £1 of such capital) and a sum equal to any arrears or deficiency of the fixed dividend thereon calculated down to the date of the return of capital subject to such taxes as shall be in force at that date and to be payable whether such dividend has been declared or earned or not in priority to any payment to the holders of the Ordinary shares, but the Preference shares shall not entitle the holders to any further or other participation in the profits or assets of Coats plc.

The Preference shares shall not entitle the holders thereof to attend or vote at any general meeting unless either:

(i) at the date of the meeting, the fixed dividend on the Preference shares is six months in arrears, and so that for this purpose such dividend shall be deemed to be payable half-yearly on 31 March and 30 September every year; or

(ii) the business of the meeting includes the consideration of a resolution for winding up or reducing the capital of Coats plc or directly and adversely affecting any of the special rights or privileges for the time being attached to the Preference shares.

The Preference shares shall nevertheless entitle the holders thereof to receive notice of every general meeting. At a general meeting at which the holders of Preference shares are entitled to attend and vote the Preference shares shall, in voting upon a poll, entitle a holder thereof or the proxy to the vote only for every Preference share held.

The conversion rights attaching to the £60.461 million 6.25% Senior Convertible Bonds issued by Coats plc are detailed in note 18.

Options granted for Ordinary shares not exercised are as follows:

	Options granted	Price per share	Period of option	Number of shares
1984 Executive Share Option Scheme	1992 to 1994	192.84p to 256.08p	2002 to 2004	**567,835**
Overseas Executive Share Option Scheme	1992 to 1994	192.84p to 256.08p	2002 to 2004	**1,238,595**
1994 Executive Share Option Scheme	1994 to 2001	33.75p to 214.50p	2002 to 2011	**18,893,249**
Sharesave Scheme	1995 to 1997	110p to 156p	2002 to 2003	**790,609**
				21,490,288

Options excercised during the year totalled 1,734,073 (2000: none). The consideration was £0.6 million.

In addition 3,702 shares were issued on conversion of 6.25% Senior Convertible Bonds due 2003.

23 **Other reserves**	Share premium account £m	Other capital reserve £m	Pension reserve Restated £m	Total £m
Group				
At beginning of year as originally reported	**206.5**	**34.1**	**94.3**	**334.9**
Prior period adjustment (note 29)	**–**	**–**	**(98.1)**	**(98.1)**
At beginning of year as restated	**206.5**	**34.1**	**(3.8)**	**236.8**
Shares issued during the year	**0.2**	**–**	**–**	**0.2**
Actuarial (losses) (note 29)	**–**	**–**	**(4.4)**	**(4.4)**
Transfer from profit and loss account	**–**	**–**	**6.0**	**6.0**
At 31 December 2001	**206.7**	**34.1**	**(2.2)**	**238.6**
Company				
At beginning of year	**206.5**	**35.6**	**–**	**242.1**
Shares issued during the year	**0.2**	**–**	**–**	**0.2**
At 31 December 2001	**206.7**	**35.6**	**–**	**242.3**

24 **Profit and loss account**		Group Restated £m	Company £m
At beginning of year as originally reported		**143.4**	**448.2**
Prior period adjustment (note 29)		**21.4**	**–**
At beginning of year as restated		**164.8**	**448.2**
Foreign currency translation (losses)			
– overseas net assets*	**(5.8)**		
– related hedging	**(5.9)**		
		(11.7)	**(0.1)**
Retained (loss) for the year		**(11.2)**	**(144.7)**
Goodwill attributable to businesses sold or terminated (note 21)		**12.5**	**–**
Transfer to pension reserve		**(6.0)**	**–**
At 31 December 2001		**148.4**	**303.4**
Retained in Group companies (including £(37.8) million overseas)		**146.7**	
Retained in associated companies		**1.7**	
		148.4	

*Including £0.7 million of net exchange losses arising on foreign currency borrowings less deposits.

25 **Minority interests**	Group 2001 £m	Group 2000 £m
Equity minority interests	**65.8**	78.3

26 **Future capital expenditure**	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Contracted but not provided for	**3.3**	5.4	**–**	–
Authorised but not contracted for	**12.5**	13.2	**–**	–
	15.8	18.6	**–**	–

		Group		Company	
		2001	2000	2001	2000
27	**Contingent liabilities**	£m	£m	£m	£m
	Loan, overdraft and finance lease guarantees in respect of certain subsidiaries (note 19)	**–**	–	**25.1**	19.3
	Others including performance guarantees and documentary credits on overseas contracts	**28.9**	52.2	**8.0**	16.3
	Company undertaking relating to deferred tax liabilities of UK subsidiaries (note 20)	**–**	–	**10.2**	13.0

		Group		Company	
		2001	2000	2001	2000
28	**Operating lease rentals**	£m	£m	£m	£m
	The committed amounts payable during 2002 are:				
	Leases of land and buildings expiring:				
	Within one year	**2.8**	2.2	**–**	–
	Within two to five years inclusive	**6.4**	6.3	**–**	–
	Over five years	**13.3**	14.3	**–**	–
		22.5	22.8	**–**	–
	Other operating leases expiring:				
	Within one year	**1.9**	1.0	**–**	–
	Within two to five years inclusive	**2.7**	3.5	**–**	–
		4.6	4.5	**–**	–

			Group	
			2001	2000
29	**Pensions**		£m	£m
	Pension assets	UK	**24.4**	27.5
		North America	**26.3**	23.6
		Other	**–**	0.6
			50.7	51.7
	Pension and other post retirement liabilities	Other overseas plans	**52.9**	55.5

The Group operates a number of defined benefit and defined contribution plans throughout the world. The principal defined benefit arrangements are in the UK and North America and the assets of these plans are mainly held under self-administered trust funds and hence are separated from the Group's assets. The Group has decided to adopt FRS17 – Retirement Benefits as the basis for accounting for pension costs in respect of all material defined benefit plans and the costs in respect thereof have been assessed in accordance with the advice of independent, professionally qualified actuaries and consultants. Comparative figures for 2000 have been restated in accordance with FRS17 and details of the pension costs calculated on this basis and the effects of the restatement are set out in this note.

(a) UK

The Group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 1 April 2000 and updated to 31 December 2001 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31.12.01	At 31.12.00	At 31.12.99
Rate of increase in salaries	4.00%	4.00%	4.25%
Rate of increase in pensions in payment	2.50%	2.50%	2.75%
Discount rate	6.00%	6.00%	6.75%
Inflation assumption	2.50%	2.50%	2.75%

29 Pensions (continued)
(a) UK (continued)

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31.12.01	Value at 31.12.01 £m	Long term rate of return expected at 31.12.00	Value at 31.12.00 £m	Long term rate of return expected at 31.12.99	Value at 31.12.99 £m
Equities	6.50%	719.3	6.50%	915.2	7.25%	1,229.3
Corporate bonds and gilts	5.40%	719.2	5.50%	654.6	5.87%	409.7
Total market value of assets		1,438.5		1,569.8		1,639.0
Actuarial value of scheme liabilities		(1,219.5)		(1,177.8)		(1,042.2)
Gross surplus		219.0		392.0		596.8
Adjustment due to surplus cap		(184.1)		(352.6)		(561.9)
Recoverable surplus in the scheme		34.9		39.4		34.9
Related deferred tax liability		(10.5)		(11.9)		(10.5)
Net pension asset		24.4		27.5		24.4

The analysis of amounts charged to operating profit and credited to other finance income are summarised in 29(d) and 29(e) below.

Analysis of amounts recognised in the statement of total recognised gains and losses are:

	Group	
	2001 £m	2000 £m
Actual return less expected return on assets	**(139.1)**	(95.0)
Experience gains and losses on liabilities	**(25.1)**	(13.3)
Changes in assumptions	**–**	(76.0)
Actuarial (loss)	**(164.2)**	(184.3)
Adjustment due to surplus cap	**159.6**	188.8
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	**(4.6)**	4.5

The movements in the gross and recognised surpluses during the year were:

	Gross surplus		Recognised surplus	
	2001 £m	2000 £m	2001 £m	2000 £m
At the beginning of the year	**392.0**	596.8	**39.4**	34.9
Movement in year:				
Current service cost	**(7.7)**	(12.7)	**(7.7)**	(12.7)
Contributions	**0.1**	–	**0.1**	–
Cost of benefit improvements	**(8.9)**	(20.5)	**–**	–
Other finance income	**24.0**	41.0	**7.7**	12.7
Actuarial (loss)/gain	**(180.5)**	(212.6)	**(4.6)**	4.5
At the end of the year	**219.0**	392.0	**34.9**	39.4

The actuarial valuation at 31 December 2001 showed a decrease in the gross surplus in the scheme from £392 million to £219 million and a fall in the recognised recoverable surplus from £39.4 million to £34.9 million. The difference between the gross surplus and the recoverable surplus is shown above as the adjustment due to the surplus cap. The recognised recoverable surplus has been restricted to the present value of the anticipated long term contribution holiday relating to the Group's core UK business. Surpluses relating to other businesses have been excluded as these assets are considered impaired based on cash flow projections approved by management. Improvements in benefits costing £8.9 million were made in 2001 (2000 – £20.5 million). In both years the costs were charged against the unrecognised surplus in the scheme. It has been agreed with the trustee that the contribution holiday will continue until the next formal actuarial review of the scheme.

29 Pensions (continued)
(a) UK (continued)

The history of experience gains and losses has been:

	Group 2001 £m	Group 2000 £m
Difference between the expected and actual return on scheme assets	**(139.1)**	(95.0)
Percentage of scheme assets	**–9%**	–6%
Experience gains and losses on scheme liabilities	**(25.1)**	(13.3)
Percentage of scheme liabilities	**–2%**	–1%
Total amount recognised in statement of total recognised gains and losses	**(4.6)**	4.5
Percentage of scheme liabilities	**–**	–

As it is not possible to allocate the assets and liabilities of the UK pension scheme between individual companies, the above amounts are reflected on consolidation only. As a result there are no pension assets or liabilities included in the accounts of the Company.

(b) North America

The Group operates defined benefit schemes in the US and Canada. Full actuarial valuations were carried out at 31 December 2001 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31.12.01	At 31.12.00	At 31.12.99
Rate of increase in salaries	6.00%	4.25%	4.25%
Discount rate	7.25%	7.50%	8.00%

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31.12.01	Value at 31.12.01 £m	Long term rate of return expected at 31.12.00	Value at 31.12.00 £m	Long term rate of return expected at 31.12.99	Value at 31.12.99 £m
Equities	9.25%	114.4	9.00%	129.5	10.00%	136.1
Corporate bonds	6.50%	60.5	6.50%	65.0	7.00%	45.6
Other	5.75%	6.4	5.50%	3.8	6.50%	5.5
Total market value of assets		181.3		198.3		187.2
Actuarial value of scheme liabilities		(117.7)		(118.3)		(97.4)
Gross surplus		63.6		80.0		89.8
Adjustment due to surplus cap		(21.5)		(41.5)		(68.4)
Recoverable surplus in the scheme		42.1		38.5		21.4
Related deferred tax liability		(15.8)		(14.9)		(8.5)
Net pension asset		26.3		23.6		12.9

The analysis of amounts charged to operating profit and credited to other finance income are summarised in 29(d) and 29(e) below.

	Group 2001 £m	Group 2000 £m
Analysis of amounts recognised in the statement of total recognised gains and losses are:		
Actual return less expected return on assets	**(19.2)**	(10.1)
Experience gains and losses on liabilities	**(0.3)**	2.5
Changes in assumptions	**(1.4)**	(8.6)
Actuarial (loss)	**(20.9)**	(16.2)
Adjustment due to surplus cap	**20.6**	23.2
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	**(0.3)**	7.0

29 Pensions (continued)
(b) North America (continued)

The movements in the gross and recognised surpluses during the year were:

	Gross surplus		Recognised surplus	
	2001 £m	2000 £m	2001 £m	2000 £m
At the beginning of the year	**80.0**	89.8	**38.5**	21.4
Movement in year:				
Current service cost	**(2.7)**	(1.7)	**(2.7)**	(1.7)
Contributions	**0.1**	0.2	**0.1**	0.2
Cost of benefit improvements	**(0.5)**	(8.7)	**–**	–
Other finance income	**5.8**	9.8	**5.8**	9.8
Actuarial (loss)/gain	**(20.9)**	(16.2)	**(0.3)**	7.0
Exchange difference	**1.8**	6.8	**0.7**	1.8
At the end of the year	**63.6**	80.0	**42.1**	38.5

The actuarial valuation at 31 December 2001 showed a decrease in the gross surplus in the scheme from £80.0 million to £63.6 million and an increase in the recognised recoverable surplus from £38.5 million to £42.1 million. The recognised recoverable surplus has been restricted to the present value of the anticipated long term contribution holiday.

Improvements in US benefits costing £0.5 million were made in 2001 (2000 – £8.7 million). In both years the costs were charged against the unrecognised surplus in the scheme. It has been agreed with the trustee that the contribution holiday will continue until the next formal actuarial review of the scheme.

During 2000, all pensions in payment in Canada were secured with annuity contracts at a cost of £2 million. There was no material settlement gain or loss resulting from this transaction.

The history of experience gains and losses has been:

	Group	
	2001 £m	2000 £m
Difference between the expected and actual return on scheme assets	**(19.2)**	(10.1)
Percentage of scheme assets	**–11%**	–5%
Experience gains and losses on scheme liabilities	**(0.3)**	2.5
Percentage of scheme liabilities	**–**	2%
Gross liabilities		
Total amount recognised in statement of total recognised gains and losses	**(0.3)**	7.0
Percentage of scheme liabilities	**–**	6%

29 Pensions (continued)

(c) Other overseas schemes

The Group operates defined benefit schemes in other countries, mainly in Europe. In the majority of cases, as is normal local practice, these schemes are unfunded and provisions are carried in the balance sheets of the companies concerned. These liabilities have been reassessed in line with FRS17 at 31 December 2001 with the assistance and advice of independent qualified actuaries. The average major assumptions made by the actuaries were:

	At 31.12.01	At 31.12.00	At 31.12.99
Rate of increase in salaries	3.00%	3.00%	3.50%
Rate of increase in pensions in payment	2.00%	2.00%	2.00%
Discount rate	6.00%	6.00%	6.50%

The net liabilities of these schemes (including pensions and other post retirement benefits) were:

Assets	Value at 31.12.01 £m	Value at 31.12.00 £m	Value at 31.12.99 £m
Equities	2.4	1.0	0.9
Corporate bonds	2.3	1.1	1.1
Other	0.7	0.4	0.6
Total market value of assets	5.4	2.5	2.6
Actuarial value of scheme liabilities	(60.6)	(60.6)	(63.8)
	(55.2)	(58.1)	(61.2)
Related deferred tax asset	2.3	2.6	3.7
Net defined benefit liabilities	(52.9)	(55.5)	(57.5)

The analysis of amounts charged to operating profit and credited to other finance income are summarised in 29(d) and 29(e) below.

Analysis of amounts recognised in the statement of total recognised gains and losses are:	Group 2001 £m	2000 £m
Actual return less expected return on assets	**(0.2)**	(0.2)
Experience gains and losses on liabilities	**0.1**	(0.7)
Changes in assumptions	**(0.2)**	(0.5)
Actuarial (loss) recognised in statement of total recognised gains and losses	**(0.3)**	(1.4)

The movements in net defined benefit liabilities during the year were:

		2001	2000
Liabilities of the schemes at the beginning of the year		**(58.1)**	(61.2)
Movement in year:	Current service cost	**(4.7)**	(5.7)
	Past service credit	**–**	4.0
	Contributions	**9.8**	10.8
	Other finance income	**(3.4)**	(3.5)
	Actuarial (loss)	**(0.3)**	(1.4)
	Exchange difference	**1.5**	(1.1)
Liabilities of the schemes at the end of the year		**(55.2)**	(58.1)

(d) Analysis of amounts charged to operating profit

		2001	2000
Current service cost	UK – continuing operations	**7.7**	7.1
	– discontinued operations	**–**	5.6
	North America	**2.7**	1.7
	Other overseas assets	**0.4**	0.5
	Other overseas liabilities	**4.7**	5.7
		15.5	20.6
Past service cost		**9.4**	29.2
Covered by unrecognised surplus		**(9.4)**	(29.2)
		–	–
Past service credit	Other overseas liabilities	**–**	(4.0)
Total operating charge		**15.5**	16.6

29 Pensions (continued)

(e) Other finance income

Analysis of net returns on pension schemes:

		Group 2001 £m	Group 2000 £m
Expected return on pension scheme assets	UK	**76.7**	81.7
	North America	**14.5**	17.7
	Other overseas assets	**0.3**	0.4
	Other overseas liabilities	**–**	0.1
		91.5	99.9
Interest on pension liabilities	UK	**(69.0)**	(69.0)
	North America	**(8.7)**	(7.9)
	Other overseas assets	**(0.2)**	(0.2)
	Other overseas liabilities	**(3.4)**	(3.6)
		(81.3)	(80.7)
Net return		**10.2**	19.2

(f) Actuarial gains and losses charged to statement of total recognised gains and losses

	2001 £m	2000 £m
UK	**(4.6)**	4.5
North America	**(0.3)**	7.0
Other overseas assets	**(0.7)**	(1.3)
Other overseas liabilities	**(0.3)**	(1.4)
Total actuarial (losses)/gains	**(5.9)**	8.8
Related deferred tax movement	**1.5**	(3.9)
Net (loss)/gain	**(4.4)**	4.9

(g) Restatement of comparative figures

As a result of the adoption of FRS17, comparative figures have been restated as follows:

Consolidated balance sheet	2000 as reported £m	Effect of FRS17 £m	2000 as restated £m
Debtors due within one year	314.5	(0.9)	313.6
Debtors due in more than one year	197.9	(184.6)	13.3
Other creditors falling due within one year	(432.1)	3.9	(428.2)
Other creditors falling due in more than one year	(41.4)	13.4	(28.0)
Provisions for liabilities and charges:			
Provisions	(99.1)	40.9	(58.2)
Deferred tax	(52.5)	54.4	1.9
Pension assets	–	51.7	51.7
Pension liabilities	–	(55.5)	(55.5)
Other reserves: Pension reserve	(94.3)	98.1	3.8
Profit and loss account	(143.4)	(21.4)	(164.8)

Consolidated profit and loss account	2000 as reported £m	Effect of FRS17 £m	2000 as restated £m
Operating profit	69.8	(19.4)	50.4
Other finance income	–	19.2	19.2
Loss on sale or termination of operations	(84.7)	(1.0)	(85.7)
Taxation	(17.4)	0.6	(16.8)
(Loss) for the financial year	(62.1)	(0.6)	(62.7)

29 Pensions (continued)

(h) Prior period adjustment

The prior period adjustment arises at 31 December 1999 and is computed as follows:

Consolidated balance sheet	1999 as reported £m	Effect of FRS17 £m	1999 as restated £m
Pension fund prepayments – UK	128.5	(93.6)	34.9
– other	38.7	(15.1)	23.6
Pension creditors and provisions	(56.8)	(4.4)	(61.2)
	110.4	(113.1)	(2.7)
Related deferred tax	(48.4)	33.1	(15.3)
Prior period adjustment	62.0	(80.0)	(18.0)

(i) Effect on results for the current year

The effect of the adoption of FRS17 on the results for the current year was as follows:

Consolidated profit and loss account	FRS17 basis £m	SSAP 24 basis £m	Effect of FRS17 £m
Operating profit	35.9	54.4	(18.5)
Other finance income	10.2	–	10.2
Loss on sale or termination of operations	(26.8)	(25.6)	(1.2)
Taxation	(11.1)	(13.4)	2.3
Profit for the financial year	10.6	17.8	(7.2)

30 Related party transactions

There are no individual transactions with related parties which are material to the Group. Set out in the table is an aggregation of related party transactions defined by type and relationship.

Group	Associated companies £m	Related parties included in other asset fixed Investments £m	Total £m
Sales to	0.5	–	0.5
Purchases from	3.3	–	3.3
Other income	1.0	–	1.0
Debtors	1.5	–	1.5
Creditors	0.4	–	0.4

Company

The Company has taken advantage of the exemption allowed by FRS8, Related Party Transactions, whereby the Company is exempted from disclosure of related party transactions when any such relevant items are included within the Group's disclosure.

Directors

Further details of transactions with Directors are given in the Report on Directors' remuneration on pages 25 to 28.

31 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

		2001 £m	2000 Restated £m
Operating profit		**35.9**	50.4
Dividends from associated companies		**0.1**	0.1
Depreciation		**45.5**	55.9
Amortisation of goodwill		**0.7**	3.0
Reorganisation costs		**31.6**	32.3
Impairment of fixed assets		**(0.1)**	3.1
Other exceptional items		**1.0**	1.5
(Increase) in stocks		**(7.4)**	(12.1)
Decrease/(increase) in debtors		**30.4**	(27.5)
(Decrease) in creditors		**(33.1)**	(1.7)
Abortive demerger and acquisition costs		**–**	(0.6)
Other non-cash movements		**9.8**	8.8
Net cash inflow from normal operating activities		**114.4**	113.2
Continuing operations		**121.8**	122.0
Discontinued operations		**(7.4)**	(8.8)
		114.4	113.2
Net cash outflow in respect of reorganisation costs:			
Utilisation of provisions	– closures and reorganisation	**(29.5)**	(39.8)
	– other	**0.1**	(0.2)
	– non-cash asset write downs	**1.9**	0.1
		(27.5)	(39.9)
Net cash inflow from operating activities		**86.9**	73.3

(b) Analysis of financing cash flows

		2001 £m	2000 Restated £m
Issue of Ordinary share capital		**0.6**	–
Issue of shares to minorities		**0.1**	–
		0.7	–
(Decrease) in borrowings:	– new long term loans	**–**	0.1
	– new short term loans	**116.1**	105.8
	– repayment of amounts borrowed	**(126.9)**	(132.7)
	– capital element of finance lease rental payments	**(24.4)**	(6.9)
		(35.2)	(33.7)
Net cash (outflow) from financing		**(34.5)**	(33.7)

(c) Analysis of net debt

	At 1 January 2001	Cash flow	Acquisitions /disposals (excl. cash/ overdrafts)	Other non-cash changes	Exchange	At 31 December 2001
Cash at bank and in hand	**79.1**					**63.0**
Bank overdrafts	**(31.5)**					**(24.9)**
Net cash	**47.6**	**(5.8)**			**(3.7)**	**38.1**
Short term deposits	**27.7**	**(1.8)**				**25.9**
Loans and loan stock	**(135.1)**	**10.8**	**(2.9)**		**(0.5)**	**(127.7)**
Convertible debt	**(60.1)**			**(0.1)**		**(60.2)**
Lease finance	**(28.3)**	**24.4**		**(0.3)**		**(4.2)**
		35.2				
Total	**(148.2)**	**27.6**	**(2.9)**	**(0.4)**	**(4.2)**	**(128.1)**

31 Notes to the cash flow statement (continued)

(d) Purchase of subsidiary undertakings

	2001 £m	2000 £m
Tangible fixed assets	**6.3**	–
Stocks	**10.4**	0.1
Debtors	**13.2**	(2.3)
Current asset investment	**0.8**	–
Businesses acquired for resale	**–**	0.3
Cash at bank and in hand	**3.5**	–
Loans	**(0.4)**	–
Creditors	**(11.1)**	–
Provisions	**(2.3)**	0.1
Minority shareholders interests	**10.5**	1.2
	30.9	(0.6)
Goodwill	**(6.1)**	4.1
Total	**24.8**	3.5
Satisfied by:		
Cash	**22.4**	3.7
Loan notes issued	**2.5**	–
Transfer from deferred consideration	**(0.1)**	(0.4)
Transfer to deferred consideration	**–**	0.2
	24.8	3.5

(e) Sale of subsidiary undertakings

	2001 £m	2000 £m
Goodwill	**3.7**	0.3
Tangible fixed assets	**21.8**	51.0
Stock	**29.9**	57.7
Debtors	**33.8**	37.1
Business held for resale	**–**	0.4
Cash at bank and in hand	**3.5**	0.2
Bank overdrafts	**–**	(2.1)
Loans and finance lease obligations	**–**	(0.2)
Creditors	**(18.0)**	(49.4)
Provisions	**(23.4)**	(9.7)
Current and deferred taxation	**(0.9)**	(0.4)
Minority shareholders interests	**–**	(0.1)
	50.4	84.8
(Loss) on disposal	**(26.8)**	(84.7)
Profit on sale of fixed assets	**4.0**	–
Write-back of purchased goodwill	**12.5**	5.3
	40.1	5.4
Satisfied by:		
Cash	**36.6**	34.6
Pension credit	**–**	1.1
Deferred consideration	**4.8**	(29.6)
Fixed asset investments	**0.1**	–
Transfer from deferred consideration	**(1.4)**	(0.7)
	40.1	5.4

(f) Cash flow relating to exceptional items

	2001 £m	2000 £m
Profit on sale of fixed assets	**13.6**	4.5
Book value of fixed assets sold	**11.7**	7.0
Less: included in sale of operations	**(6.8)**	–
Proceeds of sale of fixed assets	**18.5**	11.5
Proceeds of sale or termination of operations (note e)	**36.6**	34.6

		Country of incorporation or registration and principal country of operation
Holding and Finance Companies		
*Coats Finance Co Limited		England
Coats Holdings Limited		England
*Hicking Pentecost Limited		England
Jaeger Holdings Limited		England
Tootal Group Limited		England
Tootal Thread Limited		England
*Viyella Holdings Limited		England
Vantona Viyella Limited		England
Coats Deutschland GmbH		Germany
*Coats Patons Limited		Scotland
J & P Coats Limited		Scotland
*Coats Invers SL		Spain
Coats North America Consolidated Inc.		US
Thread		
Coats (UK) Limited		England
Coats Bangladesh Ltd	80%	Bangladesh
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Cadena SA	60%	Chile
Guangzhou Coats Limited	90%	China
Guangying Spinning Company Limited	50%	China
Jinying Spinning Company Limited	50%	China
Coats Sartel SA		France
Coats GmbH		Germany
China Thread Development Company Limited		Hong Kong
Coats Hong Kong Limited		Hong Kong
Coats Hungary Limited		Hungary
PT Tootal Thread Indonesia	70%	Indonesia
Coats Cucirini SpA	72.9%	Italy
Coats (Malaysia) Sdn Bhd	51%	Malaysia
Grupo Coats Timon, S.A. De C.V.		Mexico
Cia de Linha Coats & Clark Lda		Portugal
Coats South Africa (Pty) Ltd		South Africa
Coats Fabra SA	98.9%	Spain
Coats Thread Lanka Pvt Ltd	86.8%	Sri Lanka
Coats (Turkiye) Iplik Sanayii AS	76.8%	Turkey

		Country of incorporation or registration and principal country of operation
Thread continued		
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Tootal Phong Phu Ltd	75%	Vietnam
Fashion Retail		
The Jaeger Company Limited		England
The Jaeger Company's Shops Limited		England
William Hollins & Company Limited		England
Jaeger Sportswear Inc.		US
Bedwear		
CV Home Furnishings Limited		England
Other		
Madura Coats Limited		India
Ordinary shares	63.2%	
(Thread and India Textiles)		

All the above companies carry on businesses, the consolidated results of which, in the opinion of the Directors, principally affect the amount of the profit or the amount of the assets of the Group. All companies are wholly owned unless otherwise stated; percentage holdings shown represent the ultimate interest of Coats plc.

A complete list of subsidiary undertakings and companies in which Coats plc holds more than 10% of the equity share capital will be filed with the next annual return.

Companies marked with an asterisk are direct subsidiaries of Coats plc.

Five year statistics

	2001 £m	2000 Restated £m	1999 £m	1998 £m	1997 £m
Turnover	**1,247.0**	1,596.1	1,679.5	2,082.9	2,358.5
Operating profit before exceptional items	**68.4**	87.3	92.7	115.8	135.6
Exceptional items	**(32.5)**	(36.9)	(77.1)	(28.9)	(47.9)
Less: prior year provision	**–**	–	–	1.6	–
Operating profit	**35.9**	50.4	15.6	88.5	87.7
Other exceptional items	**(13.2)**	(81.2)	86.9	(18.1)	(19.6)
Profit/(loss) before interest and associated companies	**22.7**	(30.8)	102.5	70.4	68.1
Share of profits of associated companies	**0.6**	0.6	(0.4)	(0.4)	(0.5)
Amounts written off investments	**–**	–	(16.8)	–	–
Net interest	**(10.5)**	(20.1)	(21.7)	(34.5)	(34.3)
Other finance income	**10.2**	19.2	–	–	–
Profit/(loss) before taxation	**23.0**	(31.1)	63.6	35.5	33.3
Taxation	**(11.1)**	(16.8)	(31.3)	(56.2)	(23.6)
Profit/(loss) after taxation	**11.9**	(47.9)	32.3	(20.7)	9.7
Preference dividends and minority interests	**(2.0)**	(15.5)	(3.7)	(5.9)	(9.7)
Profit/(loss) attributable to Ordinary shareholders	**9.9**	(63.4)	28.6	(26.6)	–
Ordinary dividends	**(21.1)**	(21.1)	(21.1)	(20.9)	(33.1)
(Loss)/profit retained	**(11.2)**	(84.5)	7.5	(47.5)	(33.1)
Basic earnings/(loss) per Ordinary share	**1.4p**	(9.0)p	4.1p	(3.8)p	nil
Headline earnings/(loss) per share	**2.8p**	3.9p	(4.3)p	(1.4)p	2.8p
Dividends per Ordinary share (conventional equivalent)	**3.0p**	3.0p	3.0p	3.0p	4.7p
Goodwill,fixed assets and investments	**455.9**	485.0	540.1	626.6	637.5
Net current assets	**275.1**	298.4	574.4	472.7	527.0
Total assets less current liabilities	**731.0**	783.4	1,114.5	1,099.3	1,164.5
Creditors due after more than one year	**(82.5)**	(88.1)	(210.4)	(269.0)	(294.7)
Provisions for liabilities and charges	**(37.8)**	(56.3)	(128.1)	(120.8)	(114.0)
Net pension (liabilities)	**(2.2)**	(3.8)	–	–	–
Net assets	**608.5**	635.2	776.0	709.5	755.8
Net debt	**128.1**	148.2	125.1	320.8	361.9
Net asset value per Ordinary share	**74.9p**	77.1p	99.0p	88.9p	94.6p
Net gearing including convertible debt	**21.1%**	23.3%	16.1%	45.2%	47.9%
Cash inflow from normal operating activities	**114.4**	113.2	158.5	222.9	210.3
Net cash inflow from operating activities	**86.9**	73.3	118.4	187.1	177.3
Decrease/(increase) in net debt	**20.1**	(23.1)	195.7	41.1	(67.4)
Free cash flow	**35.5**	1.3	40.9	61.2	(8.8)

Note

2001 and 2000 figures above have been presented after adjustment for the adoption of FRS17 – Retirement Benefits. The information required to restate earlier years is not available.

To the holders of Ordinary shares

Notice is hereby given that the ninety second Annual General Meeting of Coats plc will be held at Trinity House, Tower Hill, London EC3N 4DH at 12.00 noon on Wednesday 24 April 2002 for the following purposes:

Ordinary business

1 to receive the accounts for the year ended 31 December 2001 and the report of the Directors and auditors thereon

2 to declare the final dividend of 1.5p per Ordinary share for the year ended 31 December 2001

3 to re-elect Sir Victor Blank as a Director

4 to re-elect Mr M C Flower as a Director

5 to re-elect Mr B G F Anderson as a Director

6 to re-appoint Deloitte & Touche as auditors of the Company and to authorise the Directors to fix their remuneration

Special business

7 Special resolution (Authority for the Company to purchase its own shares)

That the Company is authorised to purchase for cancellation its own fully paid Ordinary shares by way of market purchase upon and subject to the following conditions:

(i) the maximum number of shares which may be purchased is 100,000,000 Ordinary shares of 20p each;

(ii) the maximum price at which shares may be purchased is an amount equal to 105% of the average of the middle market quotations derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the shares are contracted to be purchased and the minimum price at which shares may be purchased is 20p per share, in both cases exclusive of expenses; and

(iii) the authority to purchase conferred by this resolution shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 and in any event no later than 23 October 2003 provided that any contract for the purchase of any Ordinary share as aforesaid which has been concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires.

8 Ordinary resolution (Authority for Directors to allot relevant securities)

That the Directors are generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the said Act) up to an aggregate nominal value of £30,000,000 (representing approximately 21% of the issued share capital of the Company) provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 23 July 2003, whichever is the sooner, save that the Company may before the expiry of such period make offers or agreements which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired.

9 Special resolution (Disapplication of pre-emption rights)

That the Directors are empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the Authority conferred on them by Resolution 8 above (as varied from time to time by the Company in General Meeting) as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that (without prejudice to the authority conferred in Resolution 8 above) the power conferred by this Resolution shall be limited:

(i) to the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be) to the respective numbers of Ordinary shares held by them subject only to such exclusion or other arrangements as the Directors may consider appropriate to deal with fractional entitlements, and in connection therewith to sell, for the benefit of those shareholders who are citizens of or resident in any overseas territory where in the opinion of the Directors it would at the time of the offer be illegal (by a relevant law) or unduly costly or burdensome for the Company to make or for those shareholders to accept an offer of equity securities of the Company, the equity securities to which they would otherwise be entitled, save that proceeds (net of expenses) of £2 or less to any such shareholder may be retained for the benefit of the Company;

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities having in the case of relevant shares (as defined for the purposes of Section 89 of the said Act) a nominal amount or in the case of other equity securities giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £7,700,000 (representing approximately 5% of the issued share capital of the Company); and

(iii) to the allotment of equity securities pursuant to an election by any holders of Ordinary shares to take shares instead of a cash dividend in connection with any share dividend or distribution reinvestment plan implemented by the Directors under Article 138A;

and such authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or 23 July 2003 whichever is the sooner, unless renewed or extended prior to or at such meeting except that the Company may before the expiry of any power contained in this Resolution make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

10 Ordinary resolution (Authority for introduction of approved and unapproved share option plans)

That:

(i) the rules of the Coats plc 2002 Approved Share Option Plan and the Coats plc 2002 Unapproved Share Option Plan, the principal features of which are summarised in Section 2 to the Appendix to the Notice of Annual General Meeting (copies of which are produced to the Meeting and signed by the Chairman for the purposes of identification) are approved and the Directors are authorised to do all such acts and things as may be necessary or desirable to carry the same into effect including making such amendments as may be necessary to obtain the approval of the Inland Revenue and/or such other approvals as the Directors may consider necessary or desirable; and

(ii) the Directors are authorised to vote, and be counted in the quorum, on any matter connected with the said plans, notwithstanding that they may be interested in the same (except that no Director may be counted in a quorum or vote in respect of his own participation) and any prohibition on voting by interested Directors contained in the Articles of Association of the Company is relaxed accordingly.

11 Ordinary resolution (Authority for introduction of a performance share plan)
That:
(i) the rules of the Coats plc Performance Share Plan, the main features of which are summarised in Section 3 to the Appendix to the Notice of Annual General Meeting (a copy of which is produced to the Meeting and signed by the Chairman for the purpose of identification) are approved and the Directors are authorised to do all such acts and things as may be necessary or desirable to carry the same into effect; and
(ii) the Directors are authorised to vote, and be counted in the quorum, on any matter connected with the said plan, notwithstanding that they may be interested in the same (except that no Director may be counted in a quorum or vote in respect of his own participation) and any prohibition on voting by interested Directors contained in the Articles of Association of the Company is relaxed accordingly.

12 Ordinary resolution (Authority for adoption of further plans for the benefit of non-UK Group employees)
That the Directors of the Company be authorised to establish further plans based on any share plan which has previously been approved by shareholders but modified to take account of local tax, exchange control or securities laws in any overseas jurisdiction provided that the shares made available under such further plans are treated as counting towards the limits on individual or overall participation in those previously approved plans.

Notes

1 Only Ordinary shareholders are entitled to attend and vote at the Annual General Meeting and such members will receive a form of proxy with this notice.

2 A member entitled to attend and vote may appoint one or more proxies to attend and on a poll to vote instead of him or her. A proxy need not also be a member. A proxy or representative attending on behalf of a corporation is entitled to vote on a show of hands but a member (other than a corporation) present by proxy shall not be entitled to vote on a show of hands.

3 To be valid, the proxy forms must arrive at the office of the Registrars not less than 48 hours before the time the meeting is to be held. The appointment of a proxy does not prevent a member who so wishes from attending the meeting and voting in person.

4 The Register of Directors' share interests together with copies of any service contracts for periods in excess of one year between each Director and the Company or any of its subsidiary companies and draft rules of the proposed new Approved and Unapproved Share Option Plans and Performance Share Plan (the "Share Plan Rules") are available for inspection at the Registered Office during normal business hours from the date of this Notice until the date of the meeting and at the place of meeting from 15 minutes prior to the meeting until its conclusion. The Share Plan Rules shall also be available at Andersen, 180 Strand, London WC2R 1BL during this period.

By Order of the Board
Christopher Healy Company Secretary
5 March 2002

Registered Office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD
Registered in England No: 104998

Appendix to the Notice of Annual General Meeting
Explanatory Notes to the Special Business

1 Items 7, 8 and 9 of the Notice of Annual General Meeting contain resolutions which renew existing authorisations for a further year. The Directors believe that such renewal is necessary to be able to take advantage of business opportunities as they arise and recommend you to vote in favour.
Resolution 7 This resolution authorises the Company to purchase 100,000,000 of its own shares. No purchases were made pursuant to last year's authority.
Resolution 8 An ordinary resolution will be proposed to grant the Directors general authority to allot shares up to an aggregate nominal value of £30 million, representing almost all of the unissued authorised Ordinary share capital of the Company.
Resolution 9 The principal effect of this resolution is to give the Directors authority to allot equity securities for cash other than to existing shareholders up to a limited aggregate amount of £7,700,000 representing approximately 5% of the issued share capital.

2 Summary of the proposed Coats plc 2002 Approved and Unapproved Share Option Plans (the "Plans")

General
The Board (acting where appropriate through the Remuneration Committee) will supervise the operation of the Plans. In particular, certain aspects of the Plans, including who can participate and the amount of any grants, will require the approval of the Remuneration Committee.

Eligibility
Selected employees and full time Executive Directors of the Company and its subsidiaries are eligible to participate at the discretion of the Board. Overseas employees will not normally participate in the Approved Plan.

Option price
Participants in the Plans will be granted an Option to acquire Ordinary shares in the Company ("Shares"). The price at which Shares may be acquired on the exercise of an Option will be determined when the Option is granted but will not be less than market value or, where Shares are to be subscribed, their nominal value. Market value will normally be the closing middle market quotation from the Daily Official List on the day before grant (or the average over the preceding three days).

Grant of Options
Options may be granted under the Plans during the six week periods following:

- In the case of the Approved Plan, the formal approval of the Approved Plan by the Inland Revenue;
- In the case of the Unapproved Plan, the adoption of the Unapproved Plan by the Company;
- The announcement of the Company's results for any period;
- Any changes to the legislation affecting, in the case of the Approved Plan, company share option plans approved by the Inland Revenue; and, in the case of the Unapproved Plan, legislation affecting employee share plans;
- The date an eligible employee commences employment;

and at other times where there are circumstances deemed by the Board to be exceptional.

Options may be granted over both newly issued shares and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

No grants can be made more than ten years after the Plans are approved by shareholders. Options granted under the Plans are not transferable and may only be exercised by the persons to whom they were granted or their personal representative(s).

Options will be granted by deed. No payment is required for the grant of an Option. Benefits under the Plans are not pensionable.

Exercise and lapse of Options
An Option will normally become exercisable at the end of the relevant performance period subject to the performance conditions being satisfied. The performance periods will generally be three successive years in duration but may extend to four or five years in order to sustain the incentive capacity of options granted to a wide group of international senior management.

Options will normally lapse to the extent they are not capable of exercise five years after grant.

Options will normally lapse if the participant ceases to be employed by the Group. However, if a participant retires (including early retirement with his employer's agreement) or leaves employment through injury, disability, redundancy or because his employing company is transferred outside the Group, he can exercise his Option, subject to meeting the performance condition over this shortened period, for six months from employment ceasing. In the case of retirement, the Board may determine that Approved Options remain exercisable for 42 months from the later of when they were granted and the participant's last approved exercise. In the event of a participant's death, all Options can be exercised in full for a period of twelve months. If a participant leaves under any other circumstance his Options will lapse unless the Board determines otherwise within one month of employment ceasing.

Change of control
If there is a change of control, reconstruction (amounting to a change of control) or winding up of Coats plc, the performance period will be deemed to end at that time (or at another time selected by the Board, acting fairly and reasonably) and the number of Shares over which an Option may be exercised will be calculated by reference to the extent to which the performance condition has been met over that period. Alternatively, Options may be exchanged for new equivalent options where appropriate.

Performance condition
At grant the Board must approve performance conditions which must be satisfied before any Option can be exercised.

All Options granted in the first year will be subject to an EPS growth condition measured on a sustained and consistent basis. For Options granted to a participant over Shares with an aggregate market value of up to 100% of salary, the condition will be average EPS growth of at least RPI + 9% after three years. For Option grants in excess of 100% of salary, the condition will be EPS growth of at least RPI + 15% after three years.

If the EPS condition has not been met at the end of the third year then the condition will be remeasured at the end of year four, and if it is still not met, at the end of year five. I.e. for option grants of up to 100% of salary the condition will rise from EPS growth of RPI + 9% after three years, to RPI + 12% after four years and RPI + 15% after five years.

Alternatively, the Board can set performance conditions that must be satisfied before the grant of an Option under the Unapproved Plan, in respect of non-UK based participants, excluding Executive Directors, who are exposed to the international recruitment market. There is no immediate intention to use this provision.

The Board will regularly review the exercise conditions for future Option grants to ensure that they are appropriate for the Company and the prevailing recruitment market. The conditions may be varied in certain circumstances following the grant of an Option so as to achieve their original purpose but not so as to make their achievement any more or less difficult to satisfy.

Shares must be transferred to participants within 28 days of exercise or, if that would involve conducting such transaction in a close period, as soon as practical thereafter.

Individual limit
Normally no grant will be made under the Plans, and any other market value option plan adopted by the Company, over Shares worth more than 200% of a participant's salary in any financial year. The maximum value of Shares over which Options may be granted in any year shall not exceed 400% of a participant's salary. This maximum is not intended to be used other than in exceptional circumstances. Furthermore, the market value of Options granted to a participant under the Approved Plan cannot exceed £30,000 at any time. In applying these limits no account will be taken of any Shares which have been put under Option to ensure that a participant is not financially disadvantaged if he agrees to satisfy the Group's social security liability in relation to his Option.

Rights attached to the Shares
All Shares allotted or transferred under the Plans will rank pari passu with all other Ordinary shares of the Company for the time being in issue, (save as regards any rights attaching to such Shares by reference to a record date preceding the effective date of exercise). The Company will ensure any new Shares allotted under the Plans are listed.

Variation of capital
In the event of any rights or capitalisation issue, subdivision, consolidation, reduction or other similar variation of share capital, the Board may make such adjustments as they consider appropriate to the number of Shares under Option and the exercise price of those Options. Any such adjustments to the Approved Plan will require prior approval of the Inland Revenue.

Alterations to the Plans
The Board cannot alter the provisions of the Plans to the material advantage of the participants without the sanction of the Company in General Meeting unless the alterations are minor to benefit the administration of the Plans, to take account of changes in legislation or to obtain or maintain a favourable taxation, exchange control or regulatory treatment for a Group company, participant or eligible employee.

The Board may establish further schemes based on the terms of these Plans but modified to take into account local tax, exchange control or securities law in overseas territories, provided any shares made available under such further plans count against any limits on individual or overall participation in the Plans.

Plan limits
The maximum number of new shares that may be issued or issuable under the Plans and any other employee share schemes adopted by the Company cannot exceed 10% of the issued share capital of the Company from time to time in any ten year period.

The maximum number of new shares that may be issued or issuable under the Plans and any other discretionary executive share schemes adopted by the Company cannot exceed 5% of the issued share capital of the Company from time to time in any ten year period.

For the purposes of these limits, Options or other rights to acquire Shares which lapse or have been released do not count. However, Shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share plans adopted by the Company do count towards these limits.

3 Summary of the proposed Coats plc Performance Share Plan (the "Plan")

General
The Board (acting where appropriate through the Remuneration Committee) will supervise the operation of the Plan. In particular, certain aspects of the Plan, including who can participate and the amount of any Award, will require the approval of the Remuneration Committee.

Eligibility
Selected employees and full time Executive Directors of the Company and its subsidiaries are eligible to participate at the discretion of the Board.

Grant of Awards

Awards may be granted in such form as the Board shall approve, whether as a contingent right to receive shares, an option to acquire shares, a phantom share (an award of cash which relates to the Company's share price) or any other form of award which has the same economic impact. Where Awards are cash based the Board reserves the right to deliver the benefit in the form of shares. Awards to acquire shares will entitle the participant to acquire fully paid Ordinary shares in the Company ("Shares").

Awards may be granted during the six week periods following:

- The adoption of the Plan by the Company;
- The announcement of the Company's results for any period;
- Any changes to the legislation affecting employee share plans;
- The date an eligible employee commences employment;

and at other times where there are circumstances deemed by the Board to be exceptional.

Awards may be made over both newly issued shares and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

No Awards can be made more than ten years after the Plan is approved by shareholders. Awards granted under the Plan are not transferable and may only be exercised by or vest in the persons to whom they were granted or their personal representative(s).

Awards will be granted by deed. No payment is required for the grant of an Award. Benefits under the Plan are not pensionable.

Exercise and lapse of Awards

An Award will normally become exercisable or vest at the end of the relevant performance period if and to the extent that performance conditions have been satisfied over that period. The performance periods will generally be three successive years or such other period as the Board may determine at the time of grant.

Awards will lapse to the extent not vested or capable of exercise after expiry of the performance period and in any event ten years after grant.

Awards will normally lapse if the participant ceases to be employed by the Group. However, if a participant retires (including early retirement with his employer's agreement) or leaves employment through injury, disability, redundancy or because his employing company is transferred outside the Group, a proportion of his Award will normally vest based on how many months have elapsed since it was granted. The relevant proportion of the Award will vest at the end of the performance period and will remain subject to satisfying the performance condition over this period. In the event of a participant's death, his Award can be exercised or shall vest in full. If a participant leaves under any other circumstances his Award will normally lapse unless the Board determines otherwise within one month of employment ceasing.

Change of control

If there is a change of control, reconstruction (amounting to a change of control) or winding up of Coats plc, the performance period will be deemed to end at that time (or at another time selected by the Board, acting fairly and reasonably) and the number of Shares over which an Award may be exercised or vest will be calculated by reference to the extent to which the performance condition has been met over that period. Alternatively, Awards may be exchanged for new equivalent awards where appropriate.

Performance Condition

At grant the Board must approve performance conditions which must be satisfied before any Award can be exercised or vest.

All Awards made in the first year will be subject to demanding performance conditions requiring the Company's EPS over the three year period to grow by a minimum of RPI + 30%. The amount that vests at this level will be 20% of the Award. The amount that vests increases dependent on the rate of growth of EPS above the RPI. For exceptional earnings growth, where the Company's EPS has grown by RPI + 105% over the performance period, the maximum of 150% of the Award will vest.

The following table sets out the vesting schedule on a simplified annual basis for Awards made in 2002.

EPS growth	Percentage of Award that vests
Less than RPI + 10%	0%
RPI + 10%	20%
RPI + 10-15%	20-30% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 15-20%	30-40% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 20-25%	40-60% (additional 4% vests for each 1% increase in average annual real EPS growth)
RPI + 25-30%	60-100% (additional 8% vests for each 1% increase in average annual real EPS growth)
RPI + 30-35%	100-150% (additional 10% vests for each 1% increase in average annual real EPS growth)
Above RPI + 35%	150%

The Board will regularly review the performance conditions for future Awards to ensure that they are appropriate for the Company and the prevailing recruitment market. The conditions may be varied in certain circumstances following the grant of an Award so as to achieve their original purpose but not so as to make their achievement any more or less difficult to satisfy.

Shares must be transferred to participants within 28 days of exercise or vesting or, if that would involve conducting such transaction in a closed period, as soon as practical thereafter.

The Board has the right to make a cash payment in lieu of any share rights that have vested under the Plan.

Individual limit

In the first year no Award will exceed 100% of a participant's salary. The maximum value of Shares that may be awarded in any year shall not exceed 200% of a participant's salary. This maximum is not intended to be used other than in exceptional circumstances.

The provisions under the Plan relating to rights attached to the Shares, variation of capital, alterations to the Plan and the Plan limits are the same as those set out in Section 2 to the Appendix to the Notice of Annual General Meeting in relation to the Coats plc 2002 Approved and Unapproved Share Option Plans.

Shareholder information

Financial calendar

The date, time and venue of the Annual General Meeting are set out on page 65.

Final Ordinary Dividend	1.5p per share paid on 1 July 2002
Interim Results to 30 June 2002	Announced on 11 September 2002
Interim Ordinary Dividend	Payable in January 2003
Preference Dividends	Payable on 31 March and 30 September in each year

Company information

Registered Office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD Tel: 020 8210 5000
Registered in: England No.104998
Registrars: Capita IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ Tel: 0870 162 3100

Dividend mandates

If you wish dividends to be sent directly into a bank or building society account, you should contact the Registrars for a dividend mandate form.

Capital Gains Tax

For the purpose of Capital Gains Tax the market value of Ordinary shares on 31 March 1982 was 62.75p after adjustment for the 1 for 1 capitalisation issue in 1987. The market value of Ordinary shares on 18 May 1993, 5 November 1993 and 18 May 1994, the dates of the issue of shares following the offer of enhanced share dividends, were respectively 229.685p, 267.25p and 227.25p.

Market values of securities

The market value and balance sheet carrying values of the Group's traded securities at 31 December 2001 are available at the Registered Office.

Analysis by category	Numbers of shareholders	Number of ordinary 20p shares
Banks and nominee companies	1,468	597,721,359
Individuals	25,896	50,990,045
Insurance companies	22	39,164,037
Other institutions	227	15,522,247
Investment trusts	29	1,753,773
Pension funds	5	209,412
	27,647	705,360,873

Analysis by shareholding	Numbers of shareholders	Number of ordinary 20p shares
Under 1,000	16,699	6,342,721
1,000-5,000	8,629	19,130,287
5,001-50,000	1,937	25,864,504
50,001-100,000	97	7,102,246
100,001-500,000	160	34,878,793
Over 500,000	125	612,042,322
	27,647	705,360,873

Unsolicited mail

The Company is obliged to make its share register available to members of the public and organisations on payment of a prescribed fee. This may result in shareholders receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail you should write to:

The Mailing Preference Service
FREEPOST 22
London W1E 7EZ

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