

Coats plc  
Annual Report 2007



Global leader in thread



	2007 \$m	2006 \$m
Revenue	<b>1,681.2</b>	1,615.1
Operating profit before exceptional items	<b>158.1</b>	122.4
Operating profit	<b>118.8</b>	79.9
Profit before taxation and exceptional items	<b>134.9</b>	99.6
Profit before taxation	<b>74.8</b>	38.5
Net profit before exceptional items attributable to equity shareholders	<b>97.7</b>	68.9
Net profit attributable to equity shareholders	<b>41.0</b>	11.3
Net debt*	<b>335.9</b>	345.7

\*Net debt includes amounts owed to Guinness Peat Group plc of \$55.0 million (2006 – \$nil).

**Results**

Coats made good progress in 2007 in terms of both profits and cash generation. Its competitive position also continued to improve as a result of substantial investment in the relocation and upgrading of capacity and product range rationalisation in both the industrial and crafts businesses.

Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) grew by 29% to \$158.1 million (2006 – \$122.4 million). Profit from the industrial thread business increased by \$29.0 million to \$132.6 million (+28%), driven by an improved performance in Europe and strong growth in Asia. Crafts profit improved by \$6.7 million to \$25.5 million, principally as a result of a strong recovery in North American profitability. This was partly offset by weakness in the European crafts business, particularly handknittings, which pushed this business into loss.

The results for crafts and industrial over the last four years provide the context for the current year's performance.

Net earnings attributable to equity shareholders increased by \$29.7 million to \$41.0 million, due primarily to the improvement in pre-exceptional operating profit.

**Cash flow**

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) of \$225.6 million was 22% ahead of the previous year's total of \$185.5 million. European Commission fines (see below for further details) of \$29.8 million (2006 – \$7.9 million) were paid in the year, but the net operating cash flow before reorganisation costs remained strong at \$190.7 million (2006 – \$172.3 million).

Reorganisation spend was \$44.6 million (2006 – \$54.5 million). Spend on capital projects at \$68.8 million was also lower than in the previous year (2006 – \$78.3 million). Including the realisation of \$25.9 million (2006 – \$60.2 million) from the sale of surplus property, reorganisation and capital spend was comfortably covered by internally generated cash flow. Spending on the acquisition of businesses and minority shareholdings, net of disposals, amounted to \$7.8 million (2006 – \$7.5 million). Interest and tax paid at \$76.2 million was broadly in line with last year (2006 – \$72.8 million).

Excluding the \$55.0 million advance from GPG, the Group succeeded in generating a \$19.0 million (2006 – \$25.0 million) increase in cash.

	2007	2006	2005	2004
<b>External sales \$m</b>				
Industrial thread & zips	1,087.6	1,030.1	996.2	987.7
Crafts	593.6	585.0	640.5	590.5
<b>Total</b>	<b>1,681.2</b>	<b>1,615.1</b>	<b>1,636.7</b>	<b>1,578.2</b>
<b>Sales growth</b>				
Industrial thread & zips	+6%	+3%	+1%	+1%
Crafts	+1%	-9%	+8%	+13%
<b>Total</b>	<b>+4%</b>	<b>-1%</b>	<b>+4%</b>	<b>+5%</b>
<b>Pre-exceptional operating profit \$m</b>				
Industrial thread & zips	132.6	103.6	68.5	49.3
Crafts	25.5	18.8	58.0	41.2
<b>Total</b>	<b>158.1</b>	<b>122.4</b>	<b>126.5</b>	<b>90.5</b>
<b>Pre-exceptional operating margin</b>				
Industrial thread & zips	12%	10%	7%	5%
Crafts	4%	3%	9%	7%
<b>Total</b>	<b>9%</b>	<b>8%</b>	<b>8%</b>	<b>6%</b>

#### Investment, reorganisation and disposals

As noted above, the cash investment in new plant and systems amounted to \$68.8 million (2006 – \$78.3 million). Investment in plant and equipment largely consisted of additional capacity to meet growth in Asia and productivity improvements in Europe. Significant investment continues to be made in upgrading IT systems, including the installation of SAP in all Coats units throughout the world. Spend across the Group was 1.0 times (2006 – 1.2 times) depreciation and amortisation.

Reorganisation spend was \$44.6 million (2006 – \$54.5 million). Approximately 75% of this spend in 2007 was directed towards site closures and restructuring in Europe. A major restructuring programme is well underway in Europe crafts, with the objective of transforming the previous structure of country-based organisations – each with its own product range – into a more cost-effective pan-European business with a single, harmonised product offer. In the process, key products are being redesigned and new supply chains established so that the new pan-European product ranges will be more attractive and offer better value than could have been created by individual countries acting alone. Total numbers employed in the Group fell by 6% to 22,428 (2006 – 23,781) at the end of the year and 83% of employees are now located in low-cost markets. Since 2003 the number of employees in high-cost countries has fallen by more than 40%. Reorganisation cash outflows were partly offset by proceeds from the sale of properties which had become surplus as a result of the Group's reorganisation programme.

Spending on the acquisition of businesses and minority shareholdings in existing subsidiaries, net of disposals, amounted to \$7.8 million (2006 – \$7.5 million). This covers several relatively small transactions, including the acquisition of Free Spirit, a North American crafts patchwork and quilting fabrics business, as well as the acquisition of minority interests in Sri Lanka. The Free Spirit acquisition, coupled with the subsequent launch of a wider range of patchwork and quilting fabrics, has opened up new growth opportunities for Coats in a popular and long-established North American crafts activity.

#### European Commission investigation

In September 2007, the European Commission concluded its investigation into European fasteners – the last part outstanding of its general investigation into thread and haberdashery markets which began in 2001. It imposed fines against several producers, including two fines against the Coats plc Group of €12.2 million and €110.3 million. Following legal advice, the Group has determined not to appeal the €12.2 million fine, which was paid in December 2007.

The €110.3 million fine is in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation. During the investigation, Coats presented the Commission with ample evidence which refuted this allegation and demonstrated that in any event a fine was time-barred. Contrary to its right under the European Convention on Human Rights, Coats was not permitted to examine the only witness who made this allegation. Coats is vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

Earlier in September 2007, the Court of First Instance quashed a large number of the Commission's factual findings in respect of the €30 million needles fine, levied against Coats in 2004, following its investigation into the European hand-sewing needles market, for want of proof or because of clear misinterpretation of the evidence by the Commission, and reduced the fine to €20 million. A further appeal to the European Court of Justice has now been lodged in respect of this reduced fine.

As stated in previous reports, Coats remains of the view that any anticipated eventual payment of the remaining fines is adequately covered by existing provisions.

### Prospects

The consistent progress achieved by the industrial business over the last four years has fully vindicated the substantial reorganisation programme during that period. However, given the global downturn, the purchasing power of the consumer in Western markets is expected to be adversely affected, which will impact apparel and footwear sales. The global industrial thread market is therefore expected to be relatively flat in 2008. Notwithstanding this, with major restructuring projects in Western markets largely complete, Coats will use its more competitive cost base to maintain and in some countries grow its market share, in particular within the Asian region.

Some improvement is expected in crafts profitability in 2008. In the Europe market there may be some tapering off of the decline in demand seen since 2005 and a move towards a more stable environment. Benefits will begin to flow through from the latter part of 2008 onwards from the ongoing restructuring and product harmonisation programme, due to a lower cost base and improved supply chains. In North America, it is anticipated that current sales levels and profitability will be maintained.

The Group's programme of relocating and upgrading industrial thread capacity has been successful and has made a substantial contribution to the improvement in industrial profitability. The downturn in European crafts demand has indicated the need for a greater pace of reorganisation in that market. In light of this, total reorganisation costs in 2008 are expected to remain broadly in line with 2007. Reorganisation projects will continue to free up for disposal surplus properties which, in the past, have significantly reduced the net spend.

Over the longer term, the Board remains confident that Coats' position in both the industrial thread and crafts markets will deliver further growth opportunities and increases in shareholder value.

**Gary Weiss**

Chairman

9 April 2008

**Industrial trading performance**

	2007 reported \$m	2006* like-for-like \$m	2006 reported \$m	Like-for-like increase/ (decrease) %	Actual increase/ (decrease) %
<b>Sales</b>					
Asia and Rest of World	511.1	467.9	457.8	+9%	+12%
Europe	269.0	278.6	258.2	-3%	+4%
Americas	307.5	327.4	314.1	-6%	-2%
<b>Total sales</b>	<b>1,087.6</b>	<b>1,073.9</b>	<b>1,030.1</b>	<b>+1%</b>	<b>+6%</b>
<b>Pre-exceptional operating profit**</b>	<b>132.6</b>	<b>108.5</b>	<b>103.6</b>	<b>+22%</b>	<b>+28%</b>

\*2006 like-for-like restates 2006 figures at 2007 exchange rates.

\*\*Pre reorganisation, impairment, and other exceptional items (see note 5).

In the following comments, all comparisons with 2006 are on a like-for-like basis.

**Industrial trading performance**

The Asian industrial business delivered another good performance. This reflects both the continued growth in the apparel export market in this region, plus the investment made by Coats in additional production capacity and benefits from Coats relationships with global suppliers and brand owners. Sales and profits are broadly based across the region.

European sales continued to be affected by customer migration from Western Europe but this was partially offset by growth in Eastern Europe. However, there was a major recovery in operating profit in Western Europe as a result of reorganisation and investment in previous years.

The Americas continued to be affected by increased penetration of apparel imports from Asia. However, there was further recovery in operating profit as a result of earlier reorganisation and investment.

**Crafts trading performance**

Crafts sales in Europe were principally affected by reduced demand for handknittings, although all crafts categories were down in an exceptionally weak retail environment for crafts products. With a relatively high fixed-cost base, the reduction in sales pushed the business into loss. The major restructuring is in its second year and will lower the cost base, improve productivity and deliver a harmonised pan-European product offer by 2008/9.

Crafts results in the Americas benefited from a more stable handknittings market in North America and the absence of mark-downs and other one-off charges which affected 2006. In total, sales of handknittings were slightly down on last year as recovery in North America was offset by decline in South America. The acquisition of Free Spirit was successfully completed and contributed to sales growth in patchwork and quilting fabrics.

**Crafts trading performance**

	2007 reported \$m	2006* like-for-like \$m	2006 reported \$m	Like-for-like increase/ (decrease) %	Actual increase/ (decrease) %
<b>Sales</b>					
Asia and Rest of World	64.8	63.8	58.9	+2%	+10%
Europe	249.1	297.6	267.1	-16%	-7%
Americas	279.7	272.4	259.0	+3%	+8%
<b>Total sales</b>	<b>593.6</b>	<b>633.8</b>	<b>585.0</b>	<b>-6%</b>	<b>+1%</b>
<b>Pre-exceptional operating profit**</b>	<b>25.5</b>	<b>21.0</b>	<b>18.8</b>	<b>+21%</b>	<b>+36%</b>

\*2006 like-for-like restates 2006 figures at 2007 exchange rates and includes an adjustment to reflect the impact of acquisitions.

\*\*Pre reorganisation, impairment, and other exceptional items (see note 5).



**Investment income and finance costs**

Finance costs, before exceptional items and net of investment income, were \$25.4 million (2006 – \$24.9 million). Net interest payable before exceptional items, after including \$2.4 million (2006 – \$2.7 million) of interest receivable shown in investment income, was up \$5.0m from \$37.0 million in 2006 to \$42.0 million in 2007, largely due to \$2.9 million additional amortisation of 2004 facility fee charges, given that key bank facilities are expected to be refinanced in 2008 well before they mature in March 2009. The net return on pension scheme assets and liabilities increased by \$7.4 million to \$23.1 million.

Exceptional finance costs increased by \$2.2 million to \$20.8 million. The exceptional charge consists of the notional interest charge on the subordinated and convertible amounts owed to the parent company of \$194.0 million (2006 – \$173.2 million), as explained in note 23.

**Tax**

The tax charge of \$43.2 million (2006 – \$26.3 million) represents a rate of 58% (2006 – 68%) on pre-tax profit of \$74.8 million (2006 – \$38.5 million). On a pre-exceptional basis and excluding prior year charges of \$1.7 million (2006 – \$7.5 million credits), the tax rate was 33% for 2007 compared to 36% in the previous year. The Group has significant losses available to reduce future tax payments once profitability, in particular in Europe, improves.

**Profit from discontinued operations**

The \$14.6 million (2006 – \$3.2 million) profit from discontinued operations largely relates to the sale of UK property.

**Pension and other post-employment benefits**

The Group operates a defined benefit plan in the UK and there is a similar arrangement in the USA. The UK scheme shows a recoverable surplus of \$21.9 million (2006 – \$22.9 million) and the USA scheme shows a recoverable surplus of \$35.0 million (2006 – \$36.9 million). These surpluses are predominantly included in non-current assets. Employer contribution holidays for these schemes continue to be taken based on actuarial advice.

There are various pension and leaving indemnity arrangements in other countries (primarily in Europe) where the Group operates. The vast majority of these schemes, in line with local market practice, are not funded but are provided in the Group accounts and are predominantly included in current and non-current liabilities.

**Balance sheet**

In the year \$55.0 million was received from GPG, largely offsetting the \$56.7 million of bank debt repaid. Of this sum, \$29.8 million was utilised in making payments in respect of the European Commission fines. Coats expects to refinance its main bank facilities in 2008 and the \$55.0 million will be repaid to GPG as part of this.

Net debt (including this advance) was slightly reduced to \$335.9 million (2006 – \$345.7 million), notwithstanding the payment of the fines.

Equity shareholders' funds increased from \$261.3 million to \$323.8 million, reflecting the \$41.0 million net attributable profit plus net gains of \$21.5 million taken directly to reserves, largely in respect of exchange differences arising on the translation of operations with functional currencies other than the US dollar. Minority interests fell by \$1.1 million to \$18.4 million largely as a result of acquisitions.



**Executive Director**

**Michael Smithyman** (Aged 62) Group Chief Executive. Joined the Group in October 2003. He previously held the position of Chief Executive Officer of WACO International and prior to that MD of BTR Dunlop (South Africa).

**Non Executive Directors**

**Gary Weiss** (Aged 54) Appointed a Director in February 2003 and Chairman in 2004, he has considerable experience in the international business scene. He is an executive director of Guinness Peat Group plc and a director of various public companies including Capral Aluminium Ltd, Tower Australia Group Ltd and Westfield Group. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

**Anthony Gibbs** (Aged 60) Appointed a Director in 2004, he has been involved with public company boards for many years. His experience includes mergers, acquisitions and divestments. He is chairman of Tower Ltd, Turners & Growers Ltd and Staveley Inc., and an executive director of Guinness Peat Group plc. He is a member of the Remuneration Committee.

**Blake Nixon** (Aged 47) Appointed a Director in 2003, he has wide corporate experience both in the UK and Australia. He is executive director of Guinness Peat Group plc, and his other directorships include Staveley Inc. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

**Rex Wood-Ward** (Aged 59) Appointed a Director in 2003, with over 35 years international experience in general management, mergers and acquisitions and corporate strategy, Rex has been a director of several public companies on three continents and is currently a director of Westcity plc. He is a member of the Audit Committee and the Remuneration Committee.

**Company Secretary:** Roger Bevan

**Auditors:** Deloitte & Touche LLP

The Directors present their report and the financial statements for the year ended 31 December 2007.

**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.

The subsidiaries and joint ventures principally affecting the profits or net assets of the Group in the year are listed in note L to the Company's accounts.

**Business review** A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Operating review on pages 2 to 6.

**Results and dividends** The results of the Group for the year are set out in the consolidated income statement on page 12.

The Directors do not recommend the payment of a dividend (2006 – \$nil).

**Directors** Gary Weiss, Mike Smithyman, Tony Gibbs, Blake Nixon and Rex Wood-Ward all served as Directors throughout the year.

**Employment practices** The Group is committed to ensuring that employment practices and policies continue to match best practice in every market where we operate. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated.

The Group remains committed to meaningful employee consultation. The European Works Council Select Committee met regularly during the year and was consulted in relation to key projects affecting employment in more than one European country.

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

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

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

**Health and safety** The Group is committed to effective Health and Safety risk management. Line management across Coats businesses is fully accountable for the consistent implementation of Coats Health & Safety standards and policies.

Coats uses the USA OSHA reporting rate globally, which produces an index of all reportable Health and safety incidents against the total hours worked by units. The Coats global reportable rate for 2007 was 1.02 compared to 1.7 in 2006 and compared to the OSHA rate for the whole textile industry in the USA for 2006 (latest figures available) of 4.2.

**Environmental management** During 2007 the emphasis for Coats' environmental management programme has been, as in previous years, the prevention of environmental incidents in our operating plants and extending and policing compliance with our Restricted Substances List.

We had no reportable environmental incidents in 2007, compared to one minor reportable incident in 2006.

Our Restricted Substances List continues to be extended and we have added some additional chemicals in 2007. We continue to believe that it is the most comprehensive such list in the textile industry.

We are upgrading the waste water treatment facilities at a number of units to comply with tighter requirements.

All our plants are expected to have environmental management systems that would be consistent with ISO14000.

During 2008 we will continue to pursue the above goals. We are also actively looking at using more recycled or sustainable materials for both our products and packaging.

**Research and development** Once again the main focus of our Research and Development activity for the year has been on our proprietary Colour Management Systems. Our global integrated network is now nearing completion giving us seamless colour management across all units. In addition we have devoted significant resources to the development of new coating technologies, which are being implemented in 2008.

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

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

Trade creditors of the Group at 31 December 2007 were equivalent to 76 (2006 – 67) days' purchases, based on the average daily amount invoiced by suppliers during the year.

**Financial risk management** Details of the financial risk management objectives and policies of the Group, and the exposure of the Group to liquidity risk, credit risk, foreign currency risk, interest rate risk and market risk, are set out in note 21 to the consolidated financial statements.

**UK Pension fund** The Coats Pension Plan is a contributory scheme open to UK employees of the Group and provides benefits additional to those from the State Basic Pension Scheme, whilst enabling members to be contracted out of S2P (State Second Pension). 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 currently from age 50 onwards.

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

**Charitable donations** Payments of \$27,000 (2006 – \$32,000) were made to charities during the year to UK and Overseas recipients.

**Auditors** Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

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

**Statement of Directors' responsibilities** The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985 and Article 4 of the International Accounting Standards (IAS) Regulation. As the Company is a wholly owned subsidiary of Guinness Peat Group plc, which prepares consolidated financial statements under International Financial Reporting Standards (IFRS), there is no requirement under Company law for the Company to prepare consolidated financial statements. However, the Directors have elected to prepare consolidated financial statements, and these have been prepared under IFRS to provide consistency with Guinness Peat Group plc. The Directors have elected to prepare financial statements for the Company in accordance with UK GAAP.

IAS 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

The Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

**Roger Bevan**

Company Secretary

9 April 2008

**Independent auditors' report to the members of Coats plc**

We have audited the Group financial statements of Coats plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Coats plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, 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 Group 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 Group financial statements.

**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

**Emphasis of matter – uncertainty relating to the amount of a potential liability arising from a European Commission investigation**

Without qualifying our opinion, we draw attention to the disclosures made in note 3 (iii) to the financial statements concerning the European Commission competition investigation into alleged market sharing agreements relating to the European haberdashery market. In September 2007, the European Commission imposed a fine of €110.3 million against the Coats plc Group (equivalent to \$161.0 million at year-end exchange rates) in relation to these allegations against which Coats plc has lodged an appeal. Significant uncertainty surrounds the ultimate outcome of this matter. The Directors are of the view that any anticipated eventual payment of the remaining fines is adequately covered by existing provisions.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London  
9 April 2008

## 12 Consolidated income statement

		2007			2006		
	Notes	Before exceptional items \$m	Exceptional items (see note 5) \$m	Total \$m	Before exceptional items \$m	Exceptional items (see note 5) \$m	Total \$m
For the year ended 31 December 2007							
<b>Continuing operations</b>							
Revenue	4	1,681.2	–	1,681.2	1,615.1	–	1,615.1
Cost of sales		(1,040.4)	(46.4)	(1,086.8)	(1,021.0)	(63.8)	(1,084.8)
<b>Gross profit</b>		<b>640.8</b>	<b>(46.4)</b>	<b>594.4</b>	594.1	(63.8)	530.3
Distribution costs		(303.7)	–	(303.7)	(299.9)	–	(299.9)
Administrative expenses		(179.6)	–	(179.6)	(176.4)	–	(176.4)
Other operating income	4	0.6	7.1	7.7	4.6	21.3	25.9
<b>Operating profit</b>	5&6	<b>158.1</b>	<b>(39.3)</b>	<b>118.8</b>	122.4	(42.5)	79.9
Share of profits of joint ventures		2.2	–	2.2	2.1	–	2.1
Investment income	8	2.6	–	2.6	4.4	–	4.4
Finance costs	9	(28.0)	(20.8)	(48.8)	(29.3)	(18.6)	(47.9)
<b>Profit before taxation</b>		<b>134.9</b>	<b>(60.1)</b>	<b>74.8</b>	99.6	(61.1)	38.5
Taxation	10	(46.5)	3.3	(43.2)	(28.7)	2.4	(26.3)
<b>Profit from continuing operations</b>		<b>88.4</b>	<b>(56.8)</b>	<b>31.6</b>	70.9	(58.7)	12.2
<b>Discontinued operations</b>							
Profit from discontinued operations	11	14.6	–	14.6	3.2	–	3.2
<b>Profit for the year</b>		<b>103.0</b>	<b>(56.8)</b>	<b>46.2</b>	74.1	(58.7)	15.4
<b>Attributable to:</b>							
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>	28	<b>97.7</b>	<b>(56.7)</b>	<b>41.0</b>	68.9	(57.6)	11.3
Minority interests		5.3	(0.1)	5.2	5.2	(1.1)	4.1
		<b>103.0</b>	<b>(56.8)</b>	<b>46.2</b>	74.1	(58.7)	15.4

At 31 December 2007	Notes	2007 \$m	2006 \$m
<b>Non-current assets</b>			
Intangible assets	12	<b>270.6</b>	260.9
Property, plant and equipment	13	<b>520.7</b>	510.8
Investments in joint ventures and associates	15	<b>16.1</b>	16.2
Available-for-sale investments	20	<b>4.0</b>	4.9
Deferred tax assets	24	<b>13.9</b>	9.5
Pension surpluses	33	<b>63.7</b>	61.3
Trade and other receivables	17	<b>23.1</b>	27.6
		<b>912.1</b>	891.2
<b>Current assets</b>			
Inventories	16	<b>347.4</b>	307.6
Trade and other receivables	17	<b>333.6</b>	303.6
Current income tax assets		<b>3.5</b>	4.9
Available-for-sale investments	20	<b>0.2</b>	0.2
Cash and cash equivalents	30	<b>84.6</b>	76.4
		<b>769.3</b>	692.7
Non-current assets classified as held for sale	11	<b>2.5</b>	4.8
<b>Total assets</b>		<b>1,683.9</b>	1,588.7
<b>Current liabilities</b>			
Amounts owed to parent undertaking		<b>(55.0)</b>	–
Trade and other payables	18	<b>(373.4)</b>	(328.3)
Current income tax liabilities		<b>(11.4)</b>	(10.6)
Bank overdrafts and other borrowings	19	<b>(104.6)</b>	(127.9)
Provisions	22	<b>(162.2)</b>	(167.1)
		<b>(706.6)</b>	(633.9)
<b>Net current assets</b>		<b>62.7</b>	58.8
<b>Non-current liabilities</b>			
Amounts owed to parent undertaking (subordinated and convertible)	23	<b>(194.0)</b>	(173.2)
Trade and other payables	18	<b>(20.4)</b>	(25.9)
Deferred tax liabilities	24	<b>(17.3)</b>	(10.7)
Borrowings	19	<b>(260.9)</b>	(294.2)
Retirement benefit obligations:			
Funded schemes	33	<b>(1.8)</b>	(1.0)
Unfunded schemes	33	<b>(101.6)</b>	(112.4)
Provisions	22	<b>(39.1)</b>	(56.6)
		<b>(635.1)</b>	(674.0)
<b>Total liabilities</b>		<b>(1,341.7)</b>	(1,307.9)
<b>Net assets</b>		<b>342.2</b>	280.8
<b>Equity</b>			
Share capital	25	<b>137.9</b>	137.9
Equity reserve	26	<b>154.0</b>	154.0
Hedging and translation reserves	27	<b>42.3</b>	15.0
Accumulated loss	28	<b>(10.4)</b>	(45.6)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	29	<b>323.8</b>	261.3
Minority interests	29	<b>18.4</b>	19.5
<b>Total equity</b>	29	<b>342.2</b>	280.8

The financial statements were approved by the Board of Directors and authorised for issue on 9 April 2008.

They were signed on its behalf by:

**Blake Nixon**, Director

9 April 2008



## 14 Consolidated cash flow statement

For the year ended 31 December 2007	Notes	2007 \$m	2006 \$m
<b>Cash inflow/(outflow) from operating activities</b>			
Net cash inflow generated by operations	30	<b>146.1</b>	117.8
Interest paid		<b>(40.4)</b>	(37.0)
Taxation paid		<b>(35.8)</b>	(35.8)
<b>Net cash generated from operating activities</b>		<b>69.9</b>	45.0
<b>Cash inflow/(outflow) from investing activities</b>			
Dividends received from associates and joint ventures		<b>2.3</b>	2.3
Acquisition of property, plant and equipment and intangible assets		<b>(68.8)</b>	(78.3)
Disposal of property, plant and equipment and intangible assets		<b>25.9</b>	60.2
Acquisition of financial investments		<b>–</b>	(0.9)
Disposal of financial investments		<b>0.2</b>	8.6
Acquisition of subsidiaries	30	<b>(9.8)</b>	(10.7)
Disposal of subsidiaries	30	<b>2.0</b>	3.2
<b>Net cash absorbed in investing activities</b>		<b>(48.2)</b>	(15.6)
<b>Cash (outflow)/inflow from financing activities</b>			
Dividends paid to minority interests		<b>(2.7)</b>	(4.4)
Increase in amounts owed to parent undertaking		<b>55.0</b>	–
Decrease in debt and lease financing		<b>(56.7)</b>	(33.3)
<b>Net cash absorbed in financing activities</b>		<b>(4.4)</b>	(37.7)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17.3</b>	(8.3)
Net cash and cash equivalents at beginning of the year		<b>50.1</b>	57.1
Foreign exchange gains on cash and cash equivalents		<b>0.8</b>	1.3
<b>Net cash and cash equivalents at end of the year</b>	30	<b>68.2</b>	50.1
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net increase/(decrease) in cash and cash equivalents		<b>17.3</b>	(8.3)
Cash outflow from change in debt and lease financing		<b>56.7</b>	33.3
Change in net debt resulting from cash flows		<b>74.0</b>	25.0
New finance leases		<b>–</b>	(0.3)
Other		<b>(6.8)</b>	(3.9)
Foreign exchange		<b>(2.4)</b>	(3.2)
Decrease in net debt		<b>64.8</b>	17.6
Net debt at start of year		<b>(345.7)</b>	(363.3)
Net debt at end of year	30	<b>(280.9)</b>	(345.7)

For the year ended 31 December 2007	Notes	2007 \$m	2006 \$m
(Losses)/gains on cash flow hedges		<b>(3.7)</b>	2.2
Exchange differences on translation of foreign operations		<b>34.4</b>	17.0
Actuarial losses in respect of retirement benefit schemes	33	<b>(4.7)</b>	(9.4)
Tax on items taken directly to equity		<b>(1.1)</b>	(0.6)
<b>Net income recognised directly in equity</b>		<b>24.9</b>	9.2
Profit for the year		<b>46.2</b>	15.4
Transferred to profit or loss on cash flow hedges		<b>(3.3)</b>	(2.8)
<b>Total recognised income and expense for the year</b>	29	<b>67.8</b>	21.8
<b>Attributable to:</b>			
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>		<b>62.5</b>	18.0
Minority interests		<b>5.3</b>	3.8
		<b>67.8</b>	21.8

# 16 Notes to the consolidated accounts

## 1 General information

Coats plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of its registered office is 1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD. The nature of the Group's operations and its principal activities are set out in the Chairman's statement and Operating review on pages 2 to 6 and the Directors' report on pages 8 to 10.

## 2 Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The following are the principal policies adopted in preparing the Group financial statements.

### (a) Accounting convention and format

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

In the current year, the Group has adopted IFRS 7 – Financial Instruments: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 – Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IAS 1 – Presentation of Financial Statements (Revised 2007)

IAS 23 (Revised) – Borrowing Costs

IAS 27 (Revised 2008) – Consolidated and Separate Financial Statements

IFRS 8 – Operating Segments

IFRS 3 (2008) – Business Combinations

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and their Interaction

The adoption of these Standards and Interpretations in future periods is not expected to have a material impact on the financial statements of the Group.

### (b) Basis of consolidation

#### (i) Subsidiaries

The principal subsidiaries are listed in note L to the Company's accounts. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The effective date is when control passes to or from the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control.

#### (ii) Associates

The Group's investment in associates is accounted for under the equity method of accounting. Associates are entities in which the Group has the ability to exert significant influence and which are neither subsidiaries nor joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value. The income statement reflects the share of the profit or losses after taxation of associates. If the Group's share of losses exceeds the carrying amount of an associated undertaking, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the undertaking.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, where applicable, in the statement of recognised income and expense.

## 2 Principal accounting policies (continued)

### (b) Basis of consolidation (continued)

#### (iii) Joint ventures

Joint ventures are entities in which the Group has joint control, shared with a party outside the Group. The Group reports its interests in joint ventures using the equity method as allowed under the 'alternative accounting rules' set out in IAS 31 – Interests in Joint Ventures.

#### (c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

#### (d) Foreign currencies

##### (i) Subsidiary undertakings

The balances and transactions of subsidiary undertakings are recorded in the functional currency of that subsidiary. Currencies other than the functional currency of the subsidiary are foreign currencies.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All currency differences are taken to the income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

##### (ii) On consolidation

Given the markets in which the Group operates and the global dimension of the business, the US dollar is the functional currency of the Group. The Group's results in these financial statements are therefore prepared in US dollars, the presentation currency of the Group.

The assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recycled through the income statement.

Goodwill and fair value adjustments arising on acquisition of a subsidiary are regarded as assets and liabilities of the subsidiary and are expressed in the functional currency of the subsidiary.

The principal exchange rates (to the US dollar) used in preparing these accounts are as follows:

		2007	2006
Average	Sterling	<b>0.50</b>	0.54
	Euro	<b>0.73</b>	0.79
Year end	Sterling	<b>0.50</b>	0.51
	Euro	<b>0.68</b>	0.76

# 18 Notes to the consolidated accounts (continued)

## 2 Principal accounting policies (continued)

### (e) Property, plant and equipment

#### (i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

#### (ii) Leased assets

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### (iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

#### (iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings:		Fixtures and equipment:	
Freehold and long leasehold buildings	2%	Motor vehicles	20%
Short leasehold property	over period of lease	Electronic office equipment	25%
		All other plant and machinery	5 to 25%

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### (f) Intangible assets

#### (i) Goodwill

Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### (ii) Brands

Brands with indefinite useful lives are carried at cost less impairment.

#### (iii) Other intangibles

Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

#### (iv) Research and development

All research and development costs are expensed as they are incurred.

## 2 Principal accounting policies (continued)

### (g) Impairment of tangible and intangible assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised as an expense.

The reversal of an impairment loss is recognised immediately as income.

### (h) Investments

Investments are recognised and derecognised on a trade date basis and are initially measured at fair value plus directly attributable transaction costs. Investments are classified as either short term or long term available-for-sale investments, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in the income statement for equity investments classified as long term investments are not subsequently reversed through the income statement.

### (i) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials are valued at cost on a first-in, first-out basis.
- Finished goods and work in progress are valued based on the cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow moving and defective inventories.

### (j) Employee benefits

#### (i) Retirement and other post-employment obligations

The retirement and other post-employment benefit obligations recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged directly to equity. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (ii) Share-based compensation

The Group operates cash-settled share-based compensation plans. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

## 2 Principal accounting policies (continued)

### (j) Employee benefits (continued)

#### (iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

#### (iv) Short term employee benefits

Employee entitlements to salaries, wages and annual leave (included in accruals), to be settled within one year of the reporting date, represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

### (k) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that provision. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are only made for losses arising as a result of restructuring when the Group is legally or constructively obligated to implement the restructuring.

### (l) Taxation

The tax expense represents the sum of current and deferred tax.

Tax is recognised in the income statement except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (m) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.



## 2 Principal accounting policies (continued)

### (n) Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### (i) Trade receivables

Trade receivables are recognised and carried at fair value, being the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### (ii) Trade payables

Trade payables that are not interest bearing are stated at fair value, the amount of the consideration payable. Trade payables with deferred payment terms that effectively constitute a financing transaction are stated at the fair value of the consideration payable. The difference between the fair value and the amount of the consideration payable is recognised as a finance cost in the income statement.

#### (iii) Financial liabilities and equity instruments

Financial items and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Preference shares have been classified as financial liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible loans are regarded as compound financial instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible loans. The difference between the proceeds of the issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

The interest expense on the liability component is calculated by applying the prevailing market rate at the date of issue for a similar non-convertible loan to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan.

The amounts owed to the parent undertaking, which are subordinated, convertible at the option of the lender and are non interest bearing are regarded as a compound financial instrument and accounted for in accordance with IAS 32 – Financial Instruments: Presentation and Disclosure and IAS 39 – Financial Instruments: Measurement and Recognition.

The fair value of the liability component has been determined as at the date of issue of the amounts owed to the parent undertaking in March 2004, and the equity conversion component represents the balance of the proceeds received. The fair value of the liability component as at the date of issue, included in non-current liabilities, was calculated using a discounted cash flow analysis of future cash flows, applying an effective interest rate of 12% which the Group considers is a comparable rate based on prevailing market rates for similar non-convertible instruments at the date of issue. The liability component is accounted for on an amortised cost basis.

#### (iv) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

## 2 Principal accounting policies (continued)

### (n) Financial Instruments (continued)

#### (v) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

#### (o) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the consolidated cash flow statement, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (p) Revenue and income recognition

Revenue comprises the fair value of the sale of goods, net of VAT, discounts and after eliminating sales within the Group. Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

Income from available-for-sale investments is recognised when the legal entitlement vests.

#### (q) Operating profit

Operating profit is stated after charging restructuring costs and crediting property profits but before the share of results of associates and joint ventures and before investment income and finance costs.

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

#### (i) Goodwill

In testing for impairment, certain assumptions, both concerning the future development of the business and which are consistent with its annual budget and strategic plan, have been made. Should these assumptions not be met, then it is possible that goodwill included in the balance sheet could become impaired.

#### (ii) Pension and other post-employment obligations

The retirement benefit obligations recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of any plan assets. Key assumptions involved in the determination of the present value of the defined benefit obligations include discount rates, mortality and pensions in payment inflation rates. Changes in any of these assumptions could materially change the retirement benefit obligations recognised in the balance sheet.

#### (iii) Provisions in respect of European Commission investigation

As set out in note 22, provisions have been made in respect of the European Commission's investigation into the European thread and haberdashery markets. In September 2007, a fine of €110.3 million was imposed against the Coats plc Group (equivalent to \$161.0 million at year-end exchange rates) by the European Commission in respect of its allegation of a market sharing agreement in the European haberdashery market against which an appeal has been lodged by the Coats plc Group. Significant uncertainty surrounds the ultimate outcome of this matter. The Directors are of the view that any anticipated eventual payment of the remaining fines is adequately covered by existing provisions.

## 24 Notes to the consolidated accounts (continued)

### 4 Revenue and other operating income

An analysis of the Group's revenue, as defined by IFRS, is as follows:

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Sales of goods:		
Continuing operations	<b>1,681.2</b>	1,615.1
Other income	<b>0.6</b>	4.6
Investment income (note 8)	<b>2.6</b>	4.4
	<b>1,684.4</b>	1,624.1
Other operating income as reported in the consolidated income statement includes:		
Other income (as above)	<b>0.6</b>	4.6
Profit on the sale of property	<b>7.1</b>	21.3
	<b>7.7</b>	25.9

### 5 Exceptional items

Exceptional items are material items of income or expense that are disclosed separately due to their nature or amount. They are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group.

Exceptional items charged/(credited) to the consolidated income statement relating to continuing operations are as follows:

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
<b>Cost of sales:</b>		
Reorganisation costs and impairment of property, plant and equipment and computer software	<b>40.0</b>	51.6
Foreign exchange losses	<b>6.4</b>	12.2
	<b>46.4</b>	63.8
<b>Other operating income:</b>		
Profit on the sale of property	<b>(7.1)</b>	(21.3)
<b>Finance costs:</b>		
Notional interest cost on amounts owed to parent undertaking (subordinated and convertible) – see note 23	<b>20.8</b>	18.6
<b>Taxation</b>	<b>(3.3)</b>	(2.4)
	<b>56.8</b>	58.7

## 6 Operating profit

In addition to the exceptional items above, operating profit has been arrived at after charging/(crediting):

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Depreciation of property, plant and equipment	<b>59.3</b>	55.8
Amortisation of computer software included in administrative expenses	<b>7.9</b>	6.8
Amortisation of computer software included in cost of sales	<b>0.3</b>	0.5
Impairment of goodwill	<b>0.1</b>	–
Impairment of brands	<b>–</b>	0.5
Negative goodwill arising on acquisitions	<b>(0.1)</b>	(0.6)
Research and development expenditure	<b>0.7</b>	1.0
Cost of inventories recognised as an expense	<b>625.6</b>	616.7
Auditors' remuneration (see note below)	<b>3.7</b>	3.5

### Note

Total auditors' remuneration on a worldwide basis is as follows:

Fees payable to the Company's auditor for the audit of the Company's annual accounts	<b>0.4</b>	0.4
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	<b>2.5</b>	2.3
Services relating to taxation:		
– Advisory	<b>0.3</b>	0.2
– Compliance	<b>0.2</b>	0.4
All other services	<b>0.3</b>	0.2
	<b>3.7</b>	3.5

## 7 Staff costs

The average monthly number of employees was:

	Year ended 31 December 2007 Number	Year ended 31 December 2006 Number
Continuing operations:		
Direct	<b>14,035</b>	14,864
Indirect	<b>2,877</b>	2,972
Other staff	<b>6,423</b>	6,383
	<b>23,335</b>	24,219
Comprising:		
Continuing operations:		
UK	<b>317</b>	372
Overseas	<b>23,018</b>	23,847
	<b>23,335</b>	24,219

The total numbers employed at the end of the year were:

Continuing operations:		
UK	<b>277</b>	351
Overseas	<b>22,151</b>	23,430
	<b>22,428</b>	23,781

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Their aggregate remuneration comprised:		
Continuing operations:		
Wages and salaries	<b>341.4</b>	313.9
Social security costs	<b>46.1</b>	50.3
Other pension costs (note 33)	<b>15.5</b>	19.5
Total remuneration	<b>403.0</b>	383.7

## 26 Notes to the consolidated accounts (continued)

### 8 Investment income

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Interest receivable and similar income	<b>2.4</b>	2.7
Income from other investments	<b>0.2</b>	0.8
Net gains on derivatives held at fair value through income statement	–	0.9
	<b>2.6</b>	4.4

### 9 Finance costs

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
<b>Non-exceptional items</b>		
Amounts payable to parent undertakings	<b>0.1</b>	–
Interest on bank loans and overdrafts	<b>42.8</b>	38.2
Interest on other borrowings	<b>1.6</b>	1.5
Net return on pension scheme assets and liabilities (note 33)	<b>(23.1)</b>	(15.7)
Unwinding of discounts on provisions	<b>0.5</b>	0.6
Interest on obligations under finance leases	<b>0.2</b>	0.2
Net losses on derivatives held at fair value through income statement	<b>2.2</b>	–
Other	<b>3.7</b>	4.5
	<b>28.0</b>	29.3
<b>Exceptional items</b>		
Notional interest cost on amounts owed to parent undertaking (subordinated and convertible) – see note 23	<b>20.8</b>	18.6
	<b>48.8</b>	47.9

### 10 Taxation

	\$m	Year ended 31 December 2007 \$m	\$m	Year ended 31 December 2006 \$m
UK taxation based on profit for the year:				
Corporation tax at 30%		<b>7.6</b>		23.0
Double taxation relief		<b>(7.6)</b>		(23.0)
Total UK taxation		–		–
Overseas taxation:				
Current taxation		<b>42.3</b>		39.2
Deferred taxation (note 24)		<b>(0.8)</b>		(5.4)
		<b>41.5</b>		33.8
Prior year adjustments:				
Current taxation	–		(5.9)	
Deferred taxation (note 24)	<b>1.7</b>		<b>(1.6)</b>	
		<b>1.7</b>		(7.5)
		<b>43.2</b>		26.3

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

# 10 Taxation (continued)

The total tax charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Profit before taxation	<b>74.8</b>	38.5
Tax at the UK corporation tax rate of 30%	<b>22.4</b>	11.6
Adjusted for the effects of:		
Adjustments in respect of prior years	<b>1.7</b>	(7.5)
Deferred taxation not provided	<b>12.6</b>	12.2
Expenses not deductible for tax purposes	<b>16.3</b>	16.8
Withholding tax on remittances	<b>7.9</b>	8.4
Intra-Group dividends not covered by double tax relief	–	10.6
Utilisation of brought forward losses not previously recognised	<b>(5.6)</b>	(6.7)
Lower rates of tax on overseas earnings	<b>(9.2)</b>	(10.9)
Income not liable to taxation	<b>(9.2)</b>	(12.0)
Other	<b>6.3</b>	3.8
	<b>43.2</b>	26.3

# 11 Discontinued operations and non-current assets classified as held for sale

The results of discontinued operations are as follows:

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Expenses attributable to discontinued operations	<b>(0.7)</b>	(1.9)
Profit on disposal of properties from discontinued operations	<b>11.0</b>	2.4
Profit on disposal of discontinued operations (note 30)	<b>4.3</b>	2.7
Net profit attributable to discontinued operations	<b>14.6</b>	3.2

Non-current assets classified as held for sale of \$2.5 million (2006 – \$4.8 million) consist solely of surplus properties in both the current and prior year.



## 28 Notes to the consolidated accounts (continued)

### 12 Intangible assets

	Goodwill \$m	Brands \$m	Computer software \$m	Total \$m
<b>Cost</b>				
At 1 January 2006	234.6	1.9	47.3	283.8
Exchange difference	–	0.1	2.6	2.7
On acquisition of subsidiaries	0.6	2.8	–	3.4
Additions	–	–	6.3	6.3
Reclassification	–	–	1.0	1.0
Disposals	–	–	(1.1)	(1.1)
At 31 December 2006	235.2	4.8	56.1	296.1
At 1 January 2007	<b>235.2</b>	<b>4.8</b>	<b>56.1</b>	<b>296.1</b>
Exchange difference	<b>0.1</b>	<b>0.3</b>	<b>3.6</b>	<b>4.0</b>
On acquisition of subsidiaries (note 30)	<b>1.7</b>	<b>2.1</b>	–	<b>3.8</b>
Additions	–	–	<b>11.5</b>	<b>11.5</b>
Reclassification	–	–	<b>1.8</b>	<b>1.8</b>
Disposals	–	–	<b>(1.1)</b>	<b>(1.1)</b>
At 31 December 2007	<b>237.0</b>	<b>7.2</b>	<b>71.9</b>	<b>316.1</b>
<b>Amortisation and impairment</b>				
At 1 January 2006	–	–	26.3	26.3
Exchange difference	–	–	1.7	1.7
Charge for the year	–	–	7.3	7.3
Impairment	–	0.5	–	0.5
Disposals	–	–	(0.6)	(0.6)
At 31 December 2006	–	0.5	34.7	35.2
At 1 January 2007	–	<b>0.5</b>	<b>34.7</b>	<b>35.2</b>
Exchange difference	–	–	<b>2.5</b>	<b>2.5</b>
Charge for the year	–	–	<b>8.2</b>	<b>8.2</b>
Impairment	<b>0.1</b>	–	<b>(1.1)</b>	<b>(1.0)</b>
Reclassification	–	–	<b>1.6</b>	<b>1.6</b>
Disposals	–	–	<b>(1.0)</b>	<b>(1.0)</b>
At 31 December 2007	<b>0.1</b>	<b>0.5</b>	<b>44.9</b>	<b>45.5</b>
<b>Net book value</b>				
<b>At 31 December 2007</b>	<b>236.9</b>	<b>6.7</b>	<b>27.0</b>	<b>270.6</b>
At 31 December 2006	235.2	4.3	21.4	260.9

The carrying amount of the Group's computer software includes an amount of \$0.3 million (2006 – \$2.4 million) in respect of assets held under finance leases.

The Directors consider that the goodwill and brands will generate benefits for the Group for an indefinite period. Consequently, the Group's goodwill and brands are considered to have indefinite lives and have not been amortised.

The recoverable amounts of goodwill and brands have been estimated on a value in use basis using cash flow projections derived from recent budgets and forecasts covering the period to 31 December 2010, applying a pre-tax weighted average cost of capital of 15% (2006 – 13%) and a terminal value including no growth.

During the year computer software that had been impaired in a prior year was brought back into use resulting in an impairment reversal of \$1.1 million (2006 – \$nil).

### 13 Property, plant and equipment

	Land and buildings \$m	Fixtures and equipment \$m	Total \$m
<b>Cost</b>			
At 1 January 2006	224.5	905.5	1,130.0
Exchange difference	10.8	39.4	50.2
On acquisition of subsidiaries	–	0.9	0.9
Additions	10.3	65.2	75.5
Reclassifications to non-current assets held-for-sale	(6.2)	–	(6.2)
Other reclassifications	4.2	(5.2)	(1.0)
Disposals	–	(89.5)	(89.5)
At 31 December 2006	243.6	916.3	1,159.9
At 1 January 2007	243.6	916.3	1,159.9
Exchange difference	15.7	59.0	74.7
Additions	8.8	44.2	53.0
Reclassifications to non-current assets held-for-sale	(8.8)	–	(8.8)
Other reclassifications	(0.6)	(0.1)	(0.7)
Disposals	–	(45.2)	(45.2)
At 31 December 2007	258.7	974.2	1,232.9
<b>Accumulated depreciation and impairment</b>			
At 1 January 2006	83.8	563.7	647.5
Exchange difference	4.1	29.1	33.2
Charge for the year	5.9	49.9	55.8
Impairment	–	(3.4)	(3.4)
Reclassifications to non-current assets held-for-sale	(0.1)	–	(0.1)
Other reclassifications	0.2	(0.2)	–
Disposals	–	(83.9)	(83.9)
At 31 December 2006	93.9	555.2	649.1
At 1 January 2007	93.9	555.2	649.1
Exchange difference	6.1	39.5	45.6
Charge for the year	5.7	53.6	59.3
Impairment	0.6	2.3	2.9
Reclassifications to non-current assets held-for-sale	(3.6)	–	(3.6)
Other reclassifications	(0.1)	(0.4)	(0.5)
Disposals	–	(40.6)	(40.6)
At 31 December 2007	102.6	609.6	712.2
<b>Net book value</b>			
At 31 December 2007	156.1	364.6	520.7
At 31 December 2006	149.7	361.1	510.8

The carrying amount of the Group's fixtures and equipment includes an amount of \$0.4 million (2006 – \$0.5 million) in respect of assets held under finance leases.

Property, plant and equipment with a net book value of \$28.8 million (2006 – \$nil) has been pledged to secure borrowings of the Group (see note 21).

As at 31 December 2007, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$2.2 million (2006 – \$11.7 million).

During the year fixtures and equipment that had been impaired in a prior year were brought back into use resulting in an impairment reversal of \$nil (2006 – \$4.0 million).

## 30 Notes to the consolidated accounts (continued)

### 14 Subsidiaries

Principal subsidiary undertakings, including name, country of incorporation and proportion of ownership interest, are given in note L to the Company's accounts.

### 15 Investments in joint ventures and associates

	Joint ventures \$m	Associates \$m	Total \$m
<b>Cost</b>			
At 1 January 2006 and 31 December 2007	<b>13.4</b>	<b>0.2</b>	<b>13.6</b>
<b>Share of profits/(losses) retained</b>			
At 1 January 2006	3.0	(0.2)	2.8
Share of profits for the year	2.1	–	2.1
Dividends paid	(2.3)	–	(2.3)
At 31 December 2006	2.8	(0.2)	2.6
At 1 January 2007	<b>2.8</b>	<b>(0.2)</b>	<b>2.6</b>
Share of profits for the year	<b>2.2</b>	<b>–</b>	<b>2.2</b>
Dividends paid	<b>(2.3)</b>	<b>–</b>	<b>(2.3)</b>
At 31 December 2007	<b>2.7</b>	<b>(0.2)</b>	<b>2.5</b>
<b>Net book value</b>			
<b>At 31 December 2007</b>	<b>16.1</b>	<b>–</b>	<b>16.1</b>
At 31 December 2006	16.2	–	16.2

The aggregated amounts (representing 100% of the entity's balances) relating to joint ventures and associates are:

	2007 \$m	2006 \$m
Aggregated amounts relating to joint ventures		
Total assets	<b>38.9</b>	35.7
Total liabilities	<b>(6.7)</b>	(3.3)
Revenues	<b>52.1</b>	42.1
Profit after taxation	<b>4.4</b>	4.2
Aggregated amounts relating to associates		
Total assets	<b>37.3</b>	37.1
Total liabilities	<b>(37.3)</b>	(37.1)
Revenues	<b>27.8</b>	27.7

Principal joint ventures and associates, including name, country of incorporation and proportion of ownership interest, are given in note L to the Company's accounts.

### 16 Inventories

	2007 \$m	2006 \$m
Raw materials	<b>80.5</b>	73.1
Work-in-progress	<b>91.8</b>	82.5
Finished goods	<b>175.1</b>	152.0
	<b>347.4</b>	307.6

## 17 Trade and other receivables

	2007 \$m	2006 \$m
<b>Non-current assets</b>		
Taxation recoverable	6.8	9.3
Derivative financial instruments	0.8	2.9
Other receivables	15.5	15.4
	<b>23.1</b>	27.6
<b>Current assets</b>		
Trade receivables	284.1	247.2
Due from joint ventures and associates	0.6	0.4
Prepayments and accrued income	14.5	18.5
Derivative financial instruments	1.8	5.3
Pension surpluses	3.1	3.4
Other receivables	29.5	28.8
	<b>333.6</b>	303.6

The ageing of overdue trade receivables is as follows:

	2007 \$m	2006 \$m
Amounts due up to 1 month beyond trade credit period	30.4	29.1
Amounts due between 1 and 2 months beyond trade credit period	12.3	10.4
Amounts due between 2 and 3 months beyond trade credit period	5.8	4.4
Amounts due between 3 and 6 months beyond trade credit period	8.4	9.0
Amounts due more than 6 months beyond trade credit period	18.3	15.2
Gross amounts due beyond trade credit period	75.2	68.1
Provisions	(27.8)	(22.5)
Amounts due beyond trade credit period net of provisions	47.4	45.6
Trade receivables within credit period	236.7	201.6
Trade receivables	<b>284.1</b>	247.2

Movements in provisions:

	2007 \$m	2006 \$m
At 1 January	22.5	24.1
Exchange difference	1.5	1.0
Amounts charged to the consolidated income statement	7.6	4.7
Utilised	(3.8)	(7.3)
<b>At 31 December</b>	<b>27.8</b>	22.5

Derivative financial instruments within Group non-current and current assets comprise:

	2007 \$m	2006 \$m
<b>Fair value through the income statement:</b>		
Foreign exchange contracts	2.2	2.2
<b>Cash flow hedges:</b>		
Interest rate swaps	0.4	6.0
	<b>2.6</b>	8.2

The fair values of these financial instruments have been calculated by marking-to-market using appropriate market interest and foreign currency rates prevailing at the year end.

## 32 Notes to the consolidated accounts (continued)

### 18 Trade and other payables

	2007 \$m	2006 \$m
<b>Current liabilities</b>		
Trade creditors	<b>239.6</b>	203.2
Due to joint ventures and associates	<b>12.6</b>	4.8
Other taxes and social security payable	<b>12.2</b>	11.0
Accruals and deferred income	<b>73.0</b>	53.2
Derivative financial instruments	<b>2.8</b>	0.7
Other creditors	<b>33.2</b>	55.4
	<b>373.4</b>	328.3
<b>Non-current liabilities</b>		
Tax liabilities	<b>19.0</b>	17.4
Derivative financial instruments	<b>0.8</b>	–
Other creditors	<b>0.6</b>	8.5
	<b>20.4</b>	25.9

Included in other creditors in the prior year is a financial liability of \$16.2 million at an interest rate of 3.6% payable in instalments.

#### Derivative financial instruments within Group non-current and current liabilities comprise:

	2007 \$m	2006 \$m
<b>Fair value through the income statement:</b>		
Foreign exchange contracts	<b>2.5</b>	0.7
<b>Cash flow hedges:</b>		
Interest rate swaps	<b>1.1</b>	–
	<b>3.6</b>	0.7

The fair values of these financial instruments have been calculated by marking-to-market using appropriate market interest and foreign currency rates prevailing at the year end.

### 19 Bank overdrafts and other borrowings

	2007 \$m	2006 \$m
Bank overdrafts	<b>16.4</b>	26.3
Loans	<b>347.5</b>	393.1
Obligations under finance leases	<b>1.6</b>	2.7
	<b>365.5</b>	422.1

Bank overdrafts are repayable on demand. The bank overdrafts and other borrowings are repayable as follows:

On demand or within one year	<b>104.6</b>	127.9
In the second year	<b>80.3</b>	5.6
In the third to fifth years inclusive	<b>174.1</b>	262.8
After five years	<b>6.5</b>	25.8
	<b>365.5</b>	422.1
Less: Amount due for settlement within one year (shown under current liabilities)	<b>(104.6)</b>	(127.9)
Amount due for settlement after more than one year	<b>260.9</b>	294.2

## 19 Bank overdrafts and other borrowings (continued)

The obligations under finance leases are payable as follows:

	2007		2006	
	Minimum lease payments \$m	Present value of minimum lease payments \$m	Minimum lease payments \$m	Present value of minimum lease payments \$m
Amounts payable under finance leases:				
Within one year	1.5	1.5	1.4	1.4
In the second to fifth years inclusive	0.1	0.1	1.3	1.3
	1.6	1.6	2.7	2.7
Less: Amount due for settlement within one year (shown under current liabilities)		(1.5)		(1.4)
Amount due for settlement after more than one year		0.1		1.3

### Analysis of borrowings by currency

	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
At 31 December 2007					
Bank overdrafts	3.8	2.5	–	10.1	16.4
Loans	263.9	2.1	26.2	55.3	347.5
Obligations under finance leases	0.1	–	1.4	0.1	1.6
	267.8	4.6	27.6	65.5	365.5
At 31 December 2006					
Bank overdrafts	7.7	2.5	0.4	15.7	26.3
Loans	326.5	2.6	25.8	38.2	393.1
Obligations under finance leases	0.3	–	2.3	0.1	2.7
	334.5	5.1	28.5	54.0	422.1

### Interest rate exposure

The exposure of the borrowings of the Group to interest rate changes and the periods in which the interest rates on the borrowings reprice or mature, whichever is earlier, are as follows:

	In one year or less \$m	In two to five years \$m	In more than five years \$m	Total \$m
At 31 December 2007				
Bank overdrafts	16.4	–	–	16.4
Loans	321.3	26.2	–	347.5
Obligations under finance leases	1.5	0.1	–	1.6
Total borrowings	339.2	26.3	–	365.5
Effect of interest rate swaps (note 21)	(150.0)	120.0	30.0	–
	189.2	146.3	30.0	365.5
At 31 December 2006				
Bank overdrafts	26.3	–	–	26.3
Loans	367.3	–	25.8	393.1
Obligations under finance leases	1.4	1.3	–	2.7
Total borrowings	395.0	1.3	25.8	422.1
Effect of interest rate swaps (note 21)	(205.0)	175.0	30.0	–
	190.0	176.3	55.8	422.1

## 34 Notes to the consolidated accounts (continued)

### 19 Bank overdrafts and other borrowings (continued)

The effective interest rates (including the effect of interest rate swaps) at the balance sheet date were as follows:

	2007 %	2006 %
Bank overdrafts	<b>8.1</b>	8.0
Loans	<b>7.0</b>	7.0
Obligations under finance leases	<b>6.0</b>	6.0

Loans of \$321.3 million (2006 – \$367.3 million) have been arranged at floating interest rates. However, the associated cash flow interest rate risk has been mitigated by floating rate to fixed rate swaps with a notional principal of \$205.0 million (2006 – \$250.0 million) as set out in note 21.

Loans of \$26.2 million (2006 – \$25.8 million) are at fixed interest rates and expose the Group to fair value interest rate risk. These loans represent preference shares which are classified as debt.

### 20 Financial assets and liabilities

#### Financial assets

The Group's financial assets are summarised below:

	2007 \$m	2006 \$m
<b>Financial assets carried at cost (loans and receivables):</b>		
Cash and cash equivalents	<b>84.6</b>	76.4
Trade receivables (note 17)	<b>284.1</b>	247.2
Other receivables	<b>3.6</b>	3.5
	<b>372.3</b>	327.1
<b>Financial assets carried at fair value through profit or loss:</b>		
Derivative financial instruments (note 17)	<b>2.2</b>	2.2
<b>Other financial assets carried at fair value:</b>		
Derivative financial instruments (note 17)	<b>0.4</b>	6.1
Available-for-sale investments	<b>4.2</b>	5.1
	<b>4.6</b>	11.2
<b>Total financial assets</b>	<b>379.1</b>	340.5

The Directors consider that the carrying amount of financial assets approximates to their fair value.

#### Analysis of financial assets excluding derivatives by currency

	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
At 31 December 2007					
Cash and cash equivalents	<b>20.4</b>	<b>10.6</b>	<b>0.3</b>	<b>53.3</b>	<b>84.6</b>
Trade receivables	<b>101.6</b>	<b>79.2</b>	<b>8.5</b>	<b>94.8</b>	<b>284.1</b>
Other receivables	–	<b>2.9</b>	–	<b>0.7</b>	<b>3.6</b>
Available-for-sale investments	<b>0.1</b>	<b>3.1</b>	–	<b>1.0</b>	<b>4.2</b>
	<b>122.1</b>	<b>95.8</b>	<b>8.8</b>	<b>149.8</b>	<b>376.5</b>
At 31 December 2006					
Cash and cash equivalents	23.7	8.2	0.2	44.3	76.4
Trade receivables	90.0	59.2	8.8	89.2	247.2
Other receivables	–	3.2	–	0.3	3.5
Available-for-sale investments	0.1	4.0	–	1.0	5.1
	113.8	74.6	9.0	134.8	332.2



## 20 Financial assets and liabilities (continued)

### Currency profile of foreign exchange derivatives

The currency profile of the Group's foreign exchange derivatives on a gross basis is as follows:

	2007		2006	
	Receivable \$m	Payable \$m	Receivable \$m	Payable \$m
US dollars	95.6	126.2	41.5	117.2
Euro	57.4	76.4	73.5	20.8
Sterling	40.6	–	22.5	–
Other	29.8	21.1	24.9	22.9
	223.4	223.7	162.4	160.9

### Interest rate profile of cash and cash equivalents and available-for-sale investments

	Floating rate \$m	Non-interest bearing \$m	Total \$m
At 31 December 2007			
Cash and cash equivalents	82.8	1.8	84.6
Available-for-sale investments	1.9	2.3	4.2
	84.7	4.1	88.8
At 31 December 2006			
Cash and cash equivalents	72.1	4.3	76.4
Available-for-sale investments	1.8	3.3	5.1
	73.9	7.6	81.5

Trade receivables, other receivables and derivative financial instruments are not interest bearing.

### Financial liabilities

The Group's financial liabilities are summarised below:

	2007 \$m	2006 \$m
<b>Financial liabilities carried at amortised cost:</b>		
Trade creditors (note 18)	239.6	204.5
Other creditors	9.7	30.2
Bank overdrafts and other borrowings (note 19)	365.5	422.1
Provisions	15.3	20.7
	630.1	677.5
<b>Financial liabilities carried at fair value through profit or loss:</b>		
Derivative financial instruments (note 18)	2.5	0.7
<b>Other financial liabilities carried at fair value:</b>		
Derivative financial instruments (note 18)	1.1	–
<b>Total financial liabilities</b>	<b>633.7</b>	<b>678.2</b>

The Directors consider that the carrying amount of financial liabilities approximates to their fair value.

## 36 Notes to the consolidated accounts (continued)

### 20 Financial assets and liabilities (continued)

#### Analysis of financial liabilities excluding derivatives by currency

	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
At 31 December 2007					
Trade creditors	<b>119.4</b>	<b>37.8</b>	<b>8.8</b>	<b>73.6</b>	<b>239.6</b>
Other creditors	<b>7.6</b>	<b>0.6</b>	–	<b>1.5</b>	<b>9.7</b>
Provisions	–	–	<b>15.3</b>	–	<b>15.3</b>
	<b>127.0</b>	<b>38.4</b>	<b>24.1</b>	<b>75.1</b>	<b>264.6</b>
At 31 December 2006					
Trade creditors	90.8	30.5	7.0	76.2	204.5
Other creditors	14.4	11.7	0.2	3.9	30.2
Provisions	–	4.8	15.9	–	20.7
	105.2	47.0	23.1	80.1	255.4

The analysis of bank overdrafts and other borrowings by currency is disclosed in note 19.

### 21 Treasury policy

#### Liquidity risk

The Group is financed primarily through a secured banking facility. As at 31 December 2007, this facility totalled \$477.3 million (2006 – \$535.7 million), of which \$39.9 million (2006 – \$44.0 million) expires within one year, \$295.1 million (2006 – \$50.6 million) expires between one and two years, \$142.3 million (2006 – \$441.1 million) expires between two and five years.

As at 31 December 2007, bank overdrafts and loans of \$10.4 million (2006 – \$11.3 million) are secured on trade receivables and \$28.8 million (2006 – \$nil) are secured on property, plant and equipment. \$241.5 million (2006 – \$263.1 million) of bank overdrafts and loans as at 31 December 2007 are secured on assets of the Group. Security comprises both fixed and floating charges.

#### Maturity of financial liabilities

The maturity profile of the Group's undiscounted financial liabilities, including all contractual creditors such as trade payables, but excluding tax and other statutory liabilities, is as follows:

	2007 \$m	2006 \$m
On demand or within one year	<b>357.8</b>	369.4
In the second year	<b>84.2</b>	13.8
In the third to fifth years inclusive	<b>180.9</b>	267.6
After five years	<b>10.6</b>	31.6
	<b>633.5</b>	682.4

#### Maturity of financial derivatives

The maturity profile of the Group's financial derivatives, including interest rate and foreign exchange swaps, using undiscounted gross cash flows, is as follows:

	2007		2006	
	Receivable \$m	Payable \$m	Receivable \$m	Payable \$m
On demand or within one year	<b>181.6</b>	<b>180.7</b>	168.1	163.8
In the second year	<b>4.1</b>	<b>3.6</b>	14.3	12.0
In the third to fifth years inclusive	<b>56.0</b>	<b>54.5</b>	8.1	6.8
After five years	<b>0.5</b>	<b>0.5</b>	2.2	1.9
	<b>242.2</b>	<b>239.3</b>	192.7	184.5

## 21 Treasury policy (continued)

### Credit risk

The Group's principal financial assets are trade and other receivables, bank balances and investments.

The Group's credit risk is primarily attributable to its trade receivables. Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment habits with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual, or more frequent if appropriate, review of their credit limits and credit periods. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group's maximum exposure to credit risk is represented by the carrying amounts of the financial assets that are carried on the balance sheet, including derivatives with positive market values.

### Currency risk

Group companies use forward foreign exchange contracts to manage currency exposures arising on transactions and balances which are not in the functional currency of the company.

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the Group's income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries, on which the exchange differences are dealt with through reserves, but includes other Group balances.

#### Net foreign currency of monetary assets/(liabilities)

	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
At 31 December 2007					
Functional currency					
US dollars	–	(65.2)	19.5	12.7	(33.0)
Euro	(1.8)	–	(0.2)	1.9	(0.1)
Sterling	–	0.4	–	(0.1)	0.3
Other	(25.2)	5.8	1.4	(3.8)	(21.8)
	(27.0)	(59.0)	20.7	10.7	(54.6)
At 31 December 2006					
Functional currency					
US dollars	–	(74.8)	8.9	(7.6)	(73.5)
Euro	(2.5)	–	(0.1)	5.8	3.2
Sterling	0.5	(1.8)	–	1.0	(0.3)
Other	5.4	7.6	0.5	(1.5)	12.0
	3.4	(69.0)	9.3	(2.3)	(58.6)

**21 Treasury policy (continued)****Exchange rate sensitivity**

The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group's sensitivity to exchange rate movements is as follows:

	2007 \$m	2006 \$m
Impact of Euro strengthening by 9% against the US dollar:		
Decrease in profit before taxation for the year	<b>(5.7)</b>	(6.5)
Increase in equity shareholders' funds	<b>2.1</b>	4.4
Impact of Sterling strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	<b>1.8</b>	0.8
(Decrease)/increase in equity shareholders' funds	<b>(2.0)</b>	0.2
Impact of all other currencies strengthening by 9% against the US dollar:		
Increase/(decrease) in profit before taxation for the year	<b>3.4</b>	(1.2)
Increase in equity shareholders' funds	<b>26.8</b>	25.2

The above impacts take into account the effects of any related derivative contracts and assume the change was in force from the beginning of each of the financial years. Exchange rate sensitivity only applies to financial assets and liabilities that are denominated in currencies other than each Group company's own functional currency.

The percentages above represent the Directors' assessment of the reasonably possible change in foreign exchange rates.

**Interest rate risk**

The Group's debt is largely at floating rate. In order to provide protection from interest rate fluctuations, the Group utilises interest rate swaps to convert a proportion of its floating rate exposure to fixed rates.

Contracts with principal values of \$205.0 million (2006 – \$250.0 million) have fixed interest payments at rates between 3.28% and 4.80% for periods up until 1 May 2013 and have floating rate interest receipts. \$55.0 million of these contracts mature within one year (2006 – \$45.0 million).

The fair values of interest rate swaps entered into at 31 December 2007 comprise assets of \$0.4 million (2006 – \$6.0 million) and liabilities of \$1.1 million (2006 – \$nil). All of these interest rate swaps were designated and effective as cash flow hedges and movements in fair value were taken to equity.

**Interest rate sensitivity**

The Group is exposed to interest rate risk as companies in the Group borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings by the use of interest rate swap contracts.

Impact of a 100 basis point increase in average interest rates for the year:

	2007 \$m	2006 \$m
Decrease in profit before taxation for the year	<b>(1.7)</b>	(1.3)
Increase in equity shareholders' funds	<b>1.8</b>	4.4

The above impacts take into account the effects of related swaps, and assume the change was in force from the beginning of each of the financial years.

**Market risk**

The Group has equity and bond available-for-sale investments at 31 December 2007 of \$4.2 million (2006 – \$5.1 million) held for strategic rather than trading purposes. The Group does not actively trade these investments and is not materially exposed to price risks.

## 22 Provisions

	2007 \$m	2006 \$m
Included in current liabilities	<b>162.2</b>	167.1
Included in non-current liabilities	<b>39.1</b>	56.6
Total provisions	<b>201.3</b>	223.7

In September 2007, the European Commission concluded its investigation into European fasteners – the last part outstanding of its general investigation into thread and haberdashery markets which began in 2001. It imposed fines against several producers, including two fines against the Coats plc Group of €12.2 million and €110.3 million. Following legal advice, the Group has determined not to appeal the €12.2 million fine, which was paid in December 2007. The €110.3 million fine is in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation, and is vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

The Directors remain of the view that any anticipated eventual payment of the remaining fines is adequately covered by existing provisions. In accordance with paragraph 92 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the disclosures usually required by IAS 37 are not given as the Directors consider that their disclosure could be seriously prejudicial to the Company.

## 23 Amounts owed to parent undertaking (non-current liabilities)

The amounts owed to the parent undertaking of \$194.0 million (2006 – \$173.2 million) are convertible into ordinary shares of the Company at par at any time from March 2004 and the settlement date in March 2011 at the option of Coats Group Limited.

The net proceeds received have been split between a liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company. The liability component is as follows:

	2007 \$m	2006 \$m
At 1 January	<b>173.2</b>	154.6
Notional interest charge for the year	<b>20.8</b>	18.6
At 31 December	<b>194.0</b>	173.2

The interest charged for the year is calculated by applying the effective interest rate at the date of inception of 12% to the liability component.

The Directors estimate the fair value of the liability component of amounts owed to the parent undertaking (subordinated and convertible) to be approximately \$175.3 million at 31 December 2007 (2006 – \$148.7 million). This fair value has been calculated by discounting the future cash flows based on market rates prevailing at the respective year ends.

**24 Deferred tax**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon:

	Accelerated tax depreciation \$m	Retirement benefit obligations \$m	Tax losses \$m	Undistributed reserves \$m	Other timing differences \$m	Total \$m
At 1 January 2006	24.9	10.7	(31.0)	11.8	(8.9)	7.5
(Credit)/charge to income	(9.5)	(3.6)	18.8	(1.2)	(11.5)	(7.0)
Charge to equity	–	0.6	–	–	–	0.6
Transfer to current tax	–	–	–	–	(0.1)	(0.1)
Exchange differences	–	0.1	–	–	0.1	0.2
At 31 December 2006	15.4	7.8	(12.2)	10.6	(20.4)	1.2
At 1 January 2007	<b>15.4</b>	<b>7.8</b>	<b>(12.2)</b>	<b>10.6</b>	<b>(20.4)</b>	<b>1.2</b>
Charge/(credit) to income	<b>4.4</b>	<b>(1.8)</b>	<b>(0.3)</b>	<b>2.0</b>	<b>(3.4)</b>	<b>0.9</b>
Charge to equity	–	1.1	–	–	–	1.1
Transfer to current tax	<b>(0.1)</b>	–	–	–	–	<b>(0.1)</b>
Exchange differences	<b>3.9</b>	<b>1.9</b>	<b>(3.0)</b>	<b>2.6</b>	<b>(5.1)</b>	<b>0.3</b>
At 31 December 2007	<b>23.6</b>	<b>9.0</b>	<b>(15.5)</b>	<b>15.2</b>	<b>(28.9)</b>	<b>3.4</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2007 \$m	2006 \$m
Deferred tax liabilities – non-current	<b>17.3</b>	10.7
Deferred tax assets – non-current	<b>(13.9)</b>	(9.5)
	<b>3.4</b>	1.2

At 31 December 2007, the Group has unused income tax losses of \$495.5 million (2006 – \$447.2 million). A deferred tax asset of \$15.5 million (2006 – \$12.2 million) has been recognised in respect of \$41.1 million (2006 – \$43.2 million) of those losses. No deferred tax has been recognised in respect of the remaining \$454.4 million (2006 – \$404.0 million) of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of \$39.7million (2006 – \$27.2 million) that will expire over the next 5 years if not utilised in that period. Other losses will be carried forward for in excess of ten years or indefinitely.

At 31 December 2007, the Group also has unrecovered advance corporation tax of \$102.1 million (2006 – \$95.5 million) available for offset against future UK profits. No deferred tax has been recognised in respect of these due to the uncertainty of recoverability.

At 31 December 2007, the Group also had unused capital tax losses of \$433.6 million (2006 – \$400.2 million) available for offset against future UK capital gains. No deferred tax has been recognised in respect of the capital losses due to the unpredictability of future UK capital profit streams.

At 31 December 2007, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have been recognised was \$15.2 million (2006 – \$10.6 million). A liability has been recognised in respect of these differences because the Group plans to distribute these earnings back to the UK in the near future so that it is probable that such differences will reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

**25 Share capital**

	Number of shares	2007 \$m	Number of shares	2006 \$m
Authorised:				
Ordinary shares of £1 each	<b>75,050,000</b>	<b>137.9</b>	75,050,000	137.9
A Growth shares of £1 each	<b>70</b>	–	70	–
B Growth shares of £1 each	<b>30</b>	–	30	–
		<b>137.9</b>		<b>137.9</b>
Allotted and fully paid:				
Ordinary shares of £1 each	<b>75,050,000</b>	<b>137.9</b>	75,050,000	137.9
A Growth shares of £1 each	<b>51</b>	–	51	–
B Growth shares of £1 each	<b>30</b>	–	30	–
		<b>137.9</b>		<b>137.9</b>

The Growth shares represent non equity shares. The Growth shares confer on holders the right to one vote on a show of hands and, on a poll, one vote for each Growth share held at a general meeting. On a winding up or repayment of capital, the Growth shares confer the right to a return of the capital paid up, but do not entitle the holders to any further or other participation in the assets of the Company. The holders of the Growth shares are not entitled to receive any income in respect of their holding. The Growth shares are not redeemable.

**26 Equity reserve**

The equity reserve wholly relates to the value of the conversion option of the compound financial instrument as detailed in note 23.

	Equity reserve \$m
Balance at 1 January 2006 and 31 December 2007	<b>154.0</b>

**27 Hedging and translation reserve**

	Hedging reserve \$m	Translation reserve \$m	Total \$m
Balance at 1 January 2006	7.4	(8.7)	(1.3)
Exchange differences on translation of foreign operations	–	16.9	16.9
Increase in fair value of cash flow hedges	2.2	–	2.2
Transfer to income	(2.8)	–	(2.8)
Balance at 31 December 2006	6.8	8.2	15.0
Balance at 1 January 2007	<b>6.8</b>	<b>8.2</b>	<b>15.0</b>
Exchange differences on translation of foreign operations	–	<b>34.3</b>	<b>34.3</b>
Increase in fair value of cash flow hedges	<b>(3.7)</b>	–	<b>(3.7)</b>
Transfer to income	<b>(3.3)</b>	–	<b>(3.3)</b>
Balance at 31 December 2007	<b>(0.2)</b>	<b>42.5</b>	<b>42.3</b>

**28 Accumulated loss**

	2007 \$m	2006 \$m
Balance at 1 January	<b>(45.6)</b>	(47.3)
Net profit for the year	<b>41.0</b>	11.3
Actuarial losses in respect of retirement benefit schemes	<b>(4.7)</b>	(9.4)
Tax on items taken directly to equity	<b>(1.1)</b>	(0.6)
Other	–	0.4
Balance at 31 December	<b>(10.4)</b>	(45.6)

## 42 Notes to the consolidated accounts (continued)

### 29 Reconciliation of closing equity

	2007			2006		
	Equity holders of the Company \$m	Minority interests \$m	Total equity \$m	Equity holders of the Company \$m	Minority interests \$m	Total equity \$m
Balance at 1 January	<b>261.3</b>	<b>19.5</b>	<b>280.8</b>	243.3	26.7	270.0
Total recognised income and expense for the year	<b>62.5</b>	<b>5.3</b>	<b>67.8</b>	18.0	3.8	21.8
Dividends paid	–	<b>(2.6)</b>	<b>(2.6)</b>	–	(4.4)	(4.4)
Minority interests acquired	–	<b>(3.8)</b>	<b>(3.8)</b>	–	(6.6)	(6.6)
Balance at 31 December	<b>323.8</b>	<b>18.4</b>	<b>342.2</b>	261.3	19.5	280.8

### 30 Notes to the cash flow statement

#### (a) Reconciliation of operating profit to net cash inflow generated by operations

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Operating profit	<b>118.8</b>	79.9
Depreciation of property, plant and equipment	<b>59.3</b>	55.8
Amortisation of intangible assets (computer software)	<b>8.2</b>	7.3
Reorganisation costs	<b>38.2</b>	55.0
Impairment of property, plant and equipment	<b>2.9</b>	(3.4)
Impairment of intangible assets (computer software)	<b>(1.1)</b>	–
Other exceptional items	<b>(0.7)</b>	(9.1)
Increase in inventories	<b>(22.5)</b>	(6.1)
(Increase)/decrease in debtors	<b>(14.6)</b>	9.8
Increase/(decrease) in creditors	<b>40.1</b>	(9.5)
Provision movements	<b>(46.2)</b>	(14.7)
Other non-cash movements	<b>8.3</b>	7.3
Net cash inflow from normal operating activities	<b>190.7</b>	172.3
Net cash outflow in respect of reorganisation costs and other exceptional items	<b>(44.6)</b>	(54.5)
Net cash inflow generated by operations	<b>146.1</b>	117.8

#### (b) Analysis of net debt

	At 31 December 2006 \$m	Cash flow \$m	Other non-cash changes \$m	Exchange \$m	At 31 December 2007 \$m
Cash and cash equivalents	76.4				<b>84.6</b>
Bank overdrafts	(26.3)				<b>(16.4)</b>
Net cash and cash equivalents	50.1	17.3	–	0.8	<b>68.2</b>
Loans	(393.1)	55.2	(6.8)	(2.8)	<b>(347.5)</b>
Finance leases	(2.7)	1.5	–	(0.4)	<b>(1.6)</b>
Total	(345.7)	74.0	(6.8)	(2.4)	<b>(280.9)</b>

Net debt is before amounts owed to a parent undertaking of \$55.0 million (2006 – \$nil) and amounts owed to a parent undertaking (subordinated and convertible) of \$194.0 million (2006 – \$173.2 million) as set out in note 23.



### 30 Notes to the cash flow statement (continued)

#### (c) Acquisition of subsidiaries

During the year, the Group's main acquisition was Free Spirit in the United States, which was acquired and consolidated from January 2007.

Total net assets acquired from this and other acquisitions were as follows:

	Book value \$m	Fair value adjustments \$m	Fair value \$m
Goodwill	–	1.7	1.7
Negative goodwill	–	(0.1)	(0.1)
Brands	–	2.1	2.1
Inventories	0.7	(0.1)	0.6
Trade and other receivables (current assets)	0.3	(0.1)	0.2
Trade and other payables (current liabilities)	(0.5)	–	(0.5)
Attributable to minority interests	3.8	–	3.8
Net assets acquired	4.3	3.5	7.8
Satisfied by:			
Cash paid in the year			9.8
Deferred consideration			(2.0)
			7.8

Acquisitions contributed \$0.7 million to the Group's net operating cash flows for the year ended 31 December 2007.

The revenue and profit for the year as though the acquisition of subsidiaries had been effected at the beginning of the year is as follows:

	Year ended 31 December 2007 \$m
Revenue	
Group	1,681.2
Acquisitions	1.5
	1,682.7
Profit for the year	
Group	46.2
Acquisitions	0.2
	46.4

#### (d) Disposal of subsidiaries

During the year the Group received deferred consideration and utilised provisions in respect of the disposal of non-core operations disposed of in a prior year. The net cash inflow was as follows:

	Year ended 31 December 2007 \$m
Other receivables (current assets)	3.0
Provisions	(5.3)
Net liabilities disposed	(2.3)
Profit on disposal of discontinued operations (note 11)	4.3
Consideration	2.0
Satisfied by:	
Cash received in the year	3.0
Cost of disposal	(1.0)
	2.0

During the year discontinued businesses contributed a \$2.0 million (2006 – \$3.2 million) inflow overall in respect of discontinued operations.

## 44 Notes to the consolidated accounts (continued)

### 31 Contingent liabilities

	2007 \$m	2006 \$m
Trade facility and bank guarantees	<b>0.2</b>	0.2
Other	–	0.4
	<b>0.2</b>	0.6

### 32 Operating lease arrangements

	2007 \$m	2006 \$m
<b>The Group as lessee</b>		
Minimum lease payments under operating leases recognised in the income statement for the year	<b>27.1</b>	26.0

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Within one year	<b>27.1</b>	25.4
In the second to fifth years inclusive	<b>48.4</b>	51.5
After five years	<b>20.8</b>	28.0
	<b>96.3</b>	104.9

Operating lease payments represent rentals payable by the Group for land and buildings, hire of plant and machinery and contract hire of vehicles.

#### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

Within one year	<b>5.4</b>	5.2
In the second to fifth years inclusive	<b>11.4</b>	13.8
After five years	<b>5.3</b>	12.3
	<b>22.1</b>	31.3

### 33 Retirement and other post-employment benefit arrangements

#### (a) Pension and other post-employment costs

Pension and other post-employment costs for the year were:

	\$m	Year ended 31 December 2007 \$m	\$m	Year ended 31 December 2006 \$m
Defined contribution schemes		<b>2.8</b>		3.9
Defined benefit schemes – UK funded	<b>3.8</b>		4.2	
US funded	<b>3.1</b>		3.2	
Other funded and unfunded	<b>5.8</b>		8.2	
		<b>12.7</b>		15.6
		<b>15.5</b>		19.5

#### (b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits.

### 33 Retirement and other post-employment benefit arrangements (continued)

#### (c) Defined benefit schemes

The Group operates a number of defined benefit plans around the world to provide pension and other post-retirement benefits. The principal defined benefit arrangements are those in the UK and in US and the assets of these plans are held under self-administered trust funds and hence are separated from the Group's assets. The schemes hold no employer related assets.

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.

Pension costs in respect of these plans are assessed in accordance with the advice of independent, professionally qualified actuaries.

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2007. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2006 for the UK scheme and 31 December 2007 for the US scheme.

Principal assumptions at 31 December 2007	UK %	US %	Other %
Rate of increase in salaries	<b>4.25</b>	<b>4.20</b>	<b>2.49</b>
Rate of increase for pensions in payment	<b>3.25</b>	–	<b>1.64</b>
Discount rate	<b>6.10</b>	<b>6.35</b>	<b>6.00</b>
Inflation assumption	<b>3.25</b>	<b>2.50</b>	<b>2.62</b>
Principal assumptions at 31 December 2006	UK %	US %	Other %
Rate of increase in salaries	3.95	5.00	2.45
Rate of increase for pensions in payment	2.95	–	1.64
Discount rate	5.40	5.80	5.35
Inflation assumption	2.95	2.50	2.37
Long term rate of return expected at 31 December 2007	UK %	US %	Other %
Equities	<b>8.13</b>	<b>8.20</b>	<b>9.25</b>
Corporate bonds and gilts	<b>4.73</b>	<b>6.35</b>	<b>6.97</b>
Other	<b>4.51</b>	<b>3.70</b>	<b>6.54</b>
Long term rate of return expected at 31 December 2006	UK %	US %	Other %
Equities	7.94	8.20	8.84
Corporate bonds and gilts	4.64	5.00	7.17
Other	5.62	3.50	6.26

Long term rates of return are net of investment expenses. Long term rates of return have been calculated as the weighted rate of return on each asset class. Rates of return on bonds are weighted by the approximate investment split between government and corporate bonds. The return on each asset class is taken as the market rate of return.

Amounts recognised in income in respect of these defined benefit schemes are as follows:

For the year ended 31 December 2007	UK \$m	US \$m	Other \$m	Group \$m
Current service cost	<b>(3.8)</b>	<b>(3.1)</b>	<b>(5.6)</b>	<b>(12.5)</b>
Settlements and curtailments	–	–	<b>0.2</b>	<b>0.2</b>
Past service costs	–	–	<b>(0.4)</b>	<b>(0.4)</b>
Included in operating profit	<b>(3.8)</b>	<b>(3.1)</b>	<b>(5.8)</b>	<b>(12.7)</b>
Interest on defined benefit obligations – unwinding of discount	<b>(146.0)</b>	<b>(8.7)</b>	<b>(7.8)</b>	<b>(162.5)</b>
Expected return on pension scheme assets	<b>169.3</b>	<b>13.2</b>	<b>3.1</b>	<b>185.6</b>
Included in finance costs – net return/(charge)	<b>23.3</b>	<b>4.5</b>	<b>(4.7)</b>	<b>23.1</b>

## 46 Notes to the consolidated accounts (continued)

### 33 Retirement and other post-employment benefit arrangements (continued)

#### (c) Defined benefit schemes (continued)

For the year ended 31 December 2006	UK \$m	US \$m	Other \$m	Group \$m
Current service cost	(4.4)	(3.2)	(6.8)	(14.4)
Settlements and curtailments	0.2	—	(0.8)	(0.6)
Past service costs	—	—	(0.6)	(0.6)
Included in operating profit	(4.2)	(3.2)	(8.2)	(15.6)
Interest on defined benefit obligations – unwinding of discount	(131.3)	(8.3)	(7.3)	(146.9)
Expected return on pension scheme assets	145.8	14.0	2.8	162.6
Included in finance costs – net return/(charge)	14.5	5.7	(4.5)	15.7

The actual return on scheme assets was \$145.1 million (2006 – \$139.0 million) for the UK, \$20.1 million (2006 – \$18.5 million) for the US and \$7.5 million (2006 – \$6.2 million) for other.

The amounts included in the balance sheet arising from the Group's defined benefit arrangements are as follows:

As at 31 December 2007	UK \$m	US \$m	Other \$m	Total \$m
Equities	<b>1,083.9</b>	<b>55.6</b>	<b>24.8</b>	<b>1,164.3</b>
Corporate bonds and gilts	<b>1,747.8</b>	<b>159.4</b>	<b>16.1</b>	<b>1,923.3</b>
Other	<b>105.7</b>	<b>2.0</b>	<b>11.1</b>	<b>118.8</b>
Total market value of assets	<b>2,937.4</b>	<b>217.0</b>	<b>52.0</b>	<b>3,206.4</b>
Actuarial value of scheme liabilities	<b>(2,593.4)</b>	<b>(148.3)</b>	<b>(156.6)</b>	<b>(2,898.3)</b>
Gross net asset/(liability) in the scheme	<b>344.0</b>	<b>68.7</b>	<b>(104.6)</b>	<b>308.1</b>
Adjustment due to surplus cap	<b>(322.1)</b>	<b>(33.7)</b>	<b>(7.5)</b>	<b>(363.3)</b>
Recoverable net asset/(liability) in the scheme	<b>21.9</b>	<b>35.0</b>	<b>(112.1)</b>	<b>(55.2)</b>

This amount is presented in the balance sheet as follows:

Non-current assets	<b>63.7</b>
Current assets	<b>3.1</b>
Current liabilities	<b>(18.6)</b>
Non-current liabilities	<b>(103.4)</b>
	<b>(55.2)</b>

As at 31 December 2006	UK \$m	US \$m	Other \$m	Total \$m
Equities	1,022.1	104.4	16.7	1,143.2
Corporate bonds and gilts	1,694.7	102.5	14.0	1,811.2
Other	195.1	13.4	5.7	214.2
Total market value of assets	2,911.9	220.3	36.4	3,168.6
Actuarial value of scheme liabilities	(2,726.1)	(159.8)	(162.7)	(3,048.6)
Gross net asset/(liability) in the scheme	185.8	60.5	(126.3)	120.0
Adjustment due to surplus cap	(162.9)	(23.6)	—	(186.5)
Recoverable net asset/(liability) in the scheme	22.9	36.9	(126.3)	(66.5)

This amount is presented in the balance sheet as follows:

Non-current assets	61.3
Current assets	3.4
Current liabilities	(17.8)
Non-current liabilities	(113.4)
	(66.5)

The UK and US schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2007, \$119.2 million (2006 – \$130.3 million) related to wholly unfunded arrangements.

**33 Retirement and other post-employment benefit arrangements (continued)**  
**(c) Defined benefit schemes (continued)**

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	<b>(3,048.6)</b>	(2,849.8)
Current service cost	<b>(12.5)</b>	(14.4)
Past service cost	<b>(0.4)</b>	(0.6)
Interest on defined benefit obligations – unwinding of discount	<b>(162.5)</b>	(146.9)
Actuarial gains and losses	<b>175.5</b>	111.4
Contributions from members	<b>(1.1)</b>	(1.1)
Benefits paid	<b>204.0</b>	197.3
Settlements and curtailments	<b>2.1</b>	3.4
Exchange difference	<b>(54.8)</b>	(347.9)
At 31 December	<b>(2,898.3)</b>	(3,048.6)

Movements in the fair value of scheme assets were as follows:

At 1 January	<b>3,168.6</b>	2,820.9
Expected return on scheme assets	<b>185.6</b>	162.6
Actuarial gains and losses	<b>(5.3)</b>	12.7
Contributions from members	<b>1.1</b>	1.1
Contribution from sponsoring companies	<b>10.9</b>	19.0
Benefits paid	<b>(200.5)</b>	(194.5)
Settlements and curtailments	<b>(1.9)</b>	(4.0)
Transferred from investments	<b>1.1</b>	–
Exchange difference	<b>46.8</b>	350.8
At 31 December	<b>3,206.4</b>	3,168.6

Actuarial gains and losses were as follows:

Actuarial gains on obligations	<b>175.5</b>	111.4
Actuarial (losses)/gains on assets	<b>(5.3)</b>	12.7
Adjustment due to surplus cap	<b>(176.8)</b>	(144.5)
Exchange difference	<b>1.9</b>	11.0
Included in the statement of recognised income and expense	<b>(4.7)</b>	(9.4)

Cumulative amount included in the statement of recognised income and expense	<b>38.4</b>	43.1
------------------------------------------------------------------------------	-------------	------

	Year ended 31 December 2007 Valuation trend		Year ended 31 December 2006 Valuation trend	
	+1% \$m	-1% \$m	+1% \$m	-1% \$m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	<b>0.1</b>	<b>(0.1)</b>	0.1	(0.1)
Effect on defined benefit obligation of other schemes	<b>0.4</b>	<b>(0.4)</b>	0.5	(0.5)

**33 Retirement and other post-employment benefit arrangements (continued)****History of experience adjustments**

For the year ended 31 December 2007 these were:	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	<b>(2,593.4)</b>	<b>(148.3)</b>	<b>(156.6)</b>
Fair value of scheme assets	<b>2,937.4</b>	<b>217.0</b>	<b>52.0</b>
Net asset/(liability) in respect of the scheme	<b>344.0</b>	<b>68.7</b>	<b>(104.6)</b>
Experience gains and losses on scheme liabilities	<b>(19.0)</b>	<b>(3.3)</b>	<b>0.5</b>
Percentage of scheme liabilities	<b>(1)%</b>	<b>(2)%</b>	<b>–</b>
Difference between the expected and actual return on pension scheme assets	<b>(24.2)</b>	<b>6.9</b>	<b>4.4</b>
Percentage of scheme assets	<b>(1)%</b>	<b>3%</b>	<b>8%</b>
For the year ended 31 December 2006 these were:	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(2,726.1)	(159.8)	(162.7)
Fair value of scheme assets	2,911.9	220.3	36.4
Net asset/(liability) in respect of the scheme	185.8	60.5	(126.3)
Experience gains and losses on scheme liabilities	61.9	1.1	(9.7)
Percentage of scheme liabilities	2%	1%	(6)%
Difference between the expected and actual return on pension scheme assets	(6.8)	4.5	3.4
Percentage of scheme assets	–	2%	9%
For the year ended 31 December 2005 these were:	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(2,525.2)	(174.9)	(149.7)
Fair value of scheme assets	2,572.2	226.0	22.7
Net asset/(liability) in respect of the scheme	47.0	51.1	(127.0)
Experience gains and losses on scheme liabilities	(10.5)	(10.0)	0.1
Percentage of scheme liabilities	–	(6)%	–
Difference between the expected and actual return on pension scheme assets	177.1	(2.3)	(0.2)
Percentage of scheme assets	7%	(1)%	(1)%
For the year ended 31 December 2004 these were:	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(2,708.7)	(182.8)	(150.9)
Fair value of scheme assets	2,682.9	240.0	22.9
Net (liability)/asset in respect of the scheme	(25.8)	57.2	(128.0)
Experience gains and losses on scheme liabilities	(15.7)	2.0	5.9
Percentage of scheme liabilities	(1)%	1%	4%
Difference between the expected and actual return on pension scheme assets	73.2	10.7	0.1
Percentage of scheme assets	3%	4%	–

### 33 Retirement and other post-employment benefit arrangements (continued)

#### History of experience adjustments (continued)

For the period from 7 April 2003 to 31 December 2003 these were:

	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(2,464.5)	(175.1)	(140.9)
Fair value of scheme assets	2,429.5	237.2	22.4
Net (liability)/asset in respect of the scheme	(35.0)	62.1	(118.5)
Experience gains and losses on scheme liabilities	6.1	(5.9)	(5.4)
Percentage of scheme liabilities	–	(3)%	(4)%
Difference between the expected and actual return on pension scheme assets	122.0	12.7	2.6
Percentage of scheme assets	5%	5%	12%

The Company acquired Coats Holdings Ltd on 7 April 2003. All pension arrangements relate to Coats Holdings Ltd and its subsidiaries, and therefore were transferred into the Group at 7 April 2003.

The estimated amount to be paid in respect of the Group's retirement and other post-employment benefit arrangements during the 2008 financial year is \$21.4 million.

### 34 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

#### Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Coats plc Group:

	Parent companies 2007 \$m	Parent companies 2006 \$m	Joint ventures 2007 \$m	Joint ventures 2006 \$m	Associates 2007 \$m	Associates 2006 \$m
Sales of goods	–	–	<b>17.2</b>	21.3	<b>1.8</b>	0.4
Purchases of goods	–	–	<b>51.6</b>	42.0	<b>9.2</b>	9.9
Other income	–	–	<b>0.1</b>	–	<b>0.2</b>	0.7
Other expense	<b>(0.1)</b>	–	<b>(0.4)</b>	–	–	–
Due from related parties	–	–	–	–	<b>0.6</b>	0.4
Due to related parties	<b>249.0</b>	173.2	<b>9.3</b>	1.5	<b>3.3</b>	3.3

Amounts owed to parent undertakings include the liability component of \$194.0 million (2006 – \$173.2 million) of the compound financial instrument as disclosed in note 23. The nominal value is \$280.7 million (2006 – \$280.7 million). The other amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

**34 Related party transactions (continued)****Remuneration of key management personnel**

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate.

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
Short term benefits	<b>1.7</b>	2.1
Post-employment benefits	<b>0.4</b>	—
Share-based payments	<b>0.9</b>	2.6
	<b>3.0</b>	4.7
Highest paid Director:		
Emoluments – excludes share-based payments	<b>1.5</b>	2.0
Company pension contributions to defined contribution scheme	<b>0.4</b>	—
	<b>1.9</b>	2.0

As at 31 December 2007 retirement benefits were accruing to one Director under a defined contribution pension arrangement (2006 – one Director under a defined benefit pension arrangement).

The accrued pension entitlement under a defined benefit arrangement of the highest paid director at 31 December 2007 is \$nil per annum (2006 – \$17,150 per annum).

The Company and the Group accounts include a charge for the year of \$6.1 million (2006 – \$5.2 million) and a liability as at 31 December 2007 of \$14.1 million (2006 – \$8.0 million) for cash-settled share-based payments.

**35 Immediate and ultimate parent company**

Coats Group Limited, a company incorporated in the British Virgin Islands, was the immediate parent company of the Group throughout the years ended 31 December 2006 and 2007.

Guinness Peat Group plc, a company incorporated in England and Wales, was both the controlling party and the ultimate parent company of the Group throughout the years ended 31 December 2006 and 2007.

Guinness Peat Group plc prepares consolidated financial statements, which can be obtained from the Company Secretary at First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.



**Independent auditors' report to the members of Coats plc**

We have audited the Parent Company financial statements of Coats plc for the year ended 31 December 2007 which comprise the Company balance sheet and the related notes A to L. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Coats plc for the year ended 31 December 2007. That report is modified by the inclusion of an emphasis of matter.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' report is consistent with the Parent Company financial statements.

In addition we report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 Parent Company 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 Parent Company financial statements.

**Opinion**

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Parent Company financial statements.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London  
9 April 2008

## 52 Company balance sheet

At 31 December 2007	Notes	2007 \$m	2006 \$m
<b>Fixed assets</b>			
Investments in subsidiary undertakings	C	<b>1,942.5</b>	749.1
<b>Current assets</b>			
Debtors due within one year	D	<b>0.1</b>	0.1
Cash at bank and in hand		<b>13.9</b>	0.1
		<b>14.0</b>	0.2
<b>Creditors – amounts falling due within one year</b>			
Other creditors	E	<b>(58.9)</b>	(19.3)
<b>Net current liabilities</b>		<b>(44.9)</b>	(19.1)
<b>Total assets less current liabilities</b>		<b>1,897.6</b>	730.0
<b>Creditors – amounts falling due after more than one year</b>			
Amounts owed to parent undertaking (subordinated and convertible)	F	<b>(280.7)</b>	(280.7)
Other creditors	G	<b>(1,336.9)</b>	(404.9)
		<b>(1,617.6)</b>	(685.6)
<b>Provisions for liabilities and charges</b>	34	<b>(14.1)</b>	(8.0)
<b>Net assets</b>		<b>265.9</b>	36.4
<b>Capital and reserves</b>			
Called up share capital	25	<b>137.9</b>	137.9
Profit and loss account	I	<b>128.0</b>	(101.5)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	J	<b>265.9</b>	36.4

The financial statements of Coats plc (the Company) on pages 52 to 56 were approved by the Board of Directors and authorised for issue on 9 April 2008.

They were signed on its behalf by:

**Blake Nixon**, Director

9 April 2008

**A Principal accounting policies****(a) Basis of accounting**

Although the Group's consolidated financial statements have been prepared under IFRS, the Coats plc Company financial statements presented in this section have been prepared under accounting practice generally accepted in the UK (UK GAAP) and have been prepared on the basis of historical cost and in accordance with applicable United Kingdom law and accounting standards.

The principal accounting policies for the Company are set out below.

**(b) Foreign currencies**

Since the US dollar and currencies closely linked to it are the main currencies in which the business of the Coats Group and this Company is transacted, the Company's reporting and functional currency is US dollars.

Assets and liabilities in foreign currencies are translated into US dollars at the rates of exchange ruling at the year end or related forward contract rates.

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.

**(c) 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.

**(d) Bank borrowings and other financial instruments**

Interest bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account.

The Company uses interest rate swaps to manage its exposure to interest rate movements on its floating rate bank borrowings. Under UK GAAP, their book value is \$nil (2006 – \$nil). Their fair value comprises assets of \$0.4 million (2006 – \$6.0 million) and liabilities of \$1.1 million (2006 – \$nil).

**(e) Share-based compensation**

The Company operates cash-settled share-based compensation plans. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the service period, with a corresponding increase in liabilities.

**(f) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**(g) Taxation**

Provision is made for taxation assessable on the profit or loss for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred tax is measured on a non-discounted basis.

## 54 Notes to the Company accounts (continued)

### B Company's profit

	Year ended 31 December 2007 \$m	Year ended 31 December 2006 \$m
The Company's profit was	<b>229.5</b>	0.6

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

The remuneration of the Company's Directors and details of the Company's cash-settled share-based payments are disclosed in note 34 to the consolidated accounts. The auditors' remuneration for audit services to the Company was \$0.4 million (2006 – \$0.4 million). Audit fees and any employee costs were borne by a subsidiary undertaking in the current and prior years.

### C Investments in subsidiary undertakings

	Shares in subsidiary undertakings \$m	Loans to subsidiary undertakings \$m	Total \$m
Cost and net book value			
At 1 January 2007	749.1	–	749.1
Additions	978.4	215.0	1,193.4
At 31 December 2007	<b>1,727.5</b>	<b>215.0</b>	<b>1,942.5</b>

During the year Tootal Thread Limited and Coats Industrial Thread Holdings BV, subsidiary undertakings which were held indirectly in the prior period, were transferred to the Company.

The principal subsidiary undertakings of the Company and the Group are detailed in note L.

### D Debtors

	2007 \$m	2006 \$m
Debtors due within one year:		
Amounts owed by subsidiary undertakings	<b>0.1</b>	0.1

### E Other creditors (amounts falling due within one year)

	2007 \$m	2006 \$m
Amounts owed to parent undertaking	<b>55.0</b>	–
Amounts owed to subsidiary undertakings	<b>0.4</b>	–
Bank overdrafts	–	13.9
Accruals and deferred income	<b>3.5</b>	5.4
	<b>58.9</b>	19.3

### F Amounts owed to parent undertaking (subordinated and convertible)

The amounts owed to the parent undertaking of \$280.7 million (2006 – \$280.7 million) are non-interest bearing, repayable in March 2011, subordinated to the Group's principal secured banking facility and convertible into equity at par at the option of Coats Group Limited at any time up to March 2011.

**G Other creditors (amounts falling due after more than one year)**

	2007 \$m	2006 \$m
Loans	<b>200.2</b>	251.9
Amounts due to subsidiary undertakings	<b>1,136.7</b>	153.0
	<b>1,336.9</b>	404.9

The loans falling due after more than one year are secured on the assets of the Company and the Group. The security comprises both fixed and floating charges.

**H Deferred taxation**

The Company has unrecognised deferred tax assets as follows:

	2007 \$m	2006 \$m
Trading losses	<b>8.8</b>	1.6
Short term timing differences	<b>4.0</b>	2.4
	<b>12.8</b>	4.0

No deferred tax assets have been recognised due to the unpredictability of the Company's future profit streams.

**I Profit and loss account**

	2007 \$m	2006 \$m
Balance at 1 January	<b>(101.5)</b>	(102.1)
Net profit for the year	<b>229.5</b>	0.6
Balance at 31 December	<b>128.0</b>	(101.5)

**J Reconciliation of closing equity**

	2007 \$m	2006 \$m
Balance at 1 January	<b>36.4</b>	35.8
Net profit for the year	<b>229.5</b>	0.6
Balance at 31 December	<b>265.9</b>	36.4

**K Immediate and ultimate parent company and related party transactions**

The Company's immediate and ultimate parent company is set out in note 35 to the consolidated accounts.

As the Company is a wholly owned subsidiary of its ultimate parent company, Guinness Peat Group plc, whose consolidated financial statements are publicly available, in accordance with FRS 8 – Related Party Disclosures, no disclosure is given of transactions between the Company and other entities within the Guinness Peat Group.

**L Principal subsidiary undertakings**

The principal subsidiary undertakings of the Company and the Group are as follows:

		Country of incorporation or registration and principal country of operation
<b>Holding, Finance and Property Companies</b>		
Coats Holdings Ltd		England
Coats International plc	99.998%	England
Coats Finance Co. Limited		England
Coats Property Management Limited		England
Tootal Thread Limited		England
Coats Deutschland GmbH		Germany
Coats China Holdings Limited		Hong Kong
Coats Industrial Thread Holdings BV		Netherlands
J. & P. Coats Limited		Scotland
Coats Invers SLU		Spain
Coats North America Consolidated Inc.		US
<b>Thread</b>		
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats Bangladesh Ltd	80%	Bangladesh
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Opti Shenzhen Ltd		China
Coats Shenzhen Ltd		China
Guangzhou Coats Limited	90%	China
Coats Cadena SA		Colombia
Coats (UK) Limited		England
Coats France SAS		France
Coats GmbH		Germany
China Thread Development Company Limited		Hong Kong
Coats Hong Kong Limited	90%	Hong Kong
Coats Hungary Limited		Hungary
Madura Coats Private Limited		India
PT Coats Rejo Indonesia		Indonesia
Coats Cucirini SRL		Italy
Coats Thread (Malaysia) Sdn Bhd	51%	Malaysia
Grupo Coats Timon SA De CV		Mexico
Cia de Linha Coats & Clark Lda		Portugal
SC Coats Romania Impex SRL		Romania
Coats South Africa (Pty) Ltd		South Africa
Coats Fabra SA	98.8%	Spain
Coats Thread Lanka (Private) Ltd	99.7%	Sri Lanka
Coats (Turkiye) Iplik Sanayii AS	80.8%	Turkey
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Phong Phu Co Ltd	70%	Vietnam

In addition, the following companies are subsidiary undertakings of the Company under UK GAAP, but represent joint ventures for the Group under IFRS.

<b>Thread – Joint Ventures</b>		
Guangying Spinning Company Limited	50%	China
Jinying Spinning Company Limited	50%	China

All the above companies carry on businesses, the 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 and the Company. All companies are wholly owned unless otherwise stated; percentage holdings shown represent the ultimate interest of Coats plc.

All companies except Coats Holdings Ltd, Coats International plc, Coats Industrial Thread Holdings BV and Tootal Thread Limited are held indirectly.



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