

Coats plc
Annual Report 2008



Global leader in thread

	2008 \$m	2007 \$m
Revenue	1,645.4	1,681.2
Operating profit before exceptional items	102.8	158.1
Operating profit	75.2	118.8
Profit before taxation	110.9	74.8
Net profit attributable to equity shareholders	64.3	41.0
Net cash inflow from operations before exceptional items	158.4	190.7
Net debt*	346.0	335.9

*The net debt figure at 31 December 2007 reported above has been adjusted to include amounts owed to Guinness Peat Group plc of \$55.0 million.

Results

Although the overall reported result for the year is disappointing, much has been achieved in 2008, in what has been a very difficult year due to the unprecedented deterioration in global economic conditions, with credit constraints impacting consumers and retailers alike. The year saw oil prices peak at \$140/barrel and costs of energy and commodities increase significantly. Together with a weak US dollar for much of the year and strengthening currencies in countries in which Coats has key operations (such as Brazil and Mexico), costs in US dollar terms rose significantly. Sales at the half year stage were 6% up on a buoyant 2007 and were 2% up in the third quarter. However, Coats' industrial sales are largely driven by demand for clothing and footwear, which fell in the fourth quarter, and Coats' total sales were 20% down on 2007 in this quarter. This, together with actions to idle plants to conserve cash, resulted in a poor fourth quarter result. Notwithstanding these conditions and a very poor result from Europe crafts, 2008 operating profits and net debt position demonstrate Coats' resilience and ability to generate cash in these circumstances.

Despite market conditions, Coats' competitive position and market share continued to improve as a result of the substantial investment that has been made in the last few years in the upgrading and relocation of capacity and from the significant progress in rationalising the product offer in both the industrial and crafts businesses.

A pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) of \$102.8 million (2007 – \$158.1 million) was generated. At the half year stage, profits of \$67.5 million were in line with 2007 (\$68.4 million). However, they fell below 2007 levels in the second half due to the sales decline in the fourth quarter.

A pre-exceptional operating profit of \$109.9 million (2007 – \$132.6 million) was delivered by the industrial thread business. While industrial profits exceeded 2007 at the half-year stage, the severe global downturn in the second half, together with destocking in the supply chain, impacted the demand from the key apparel and footwear sectors. There was pressure on margins from plants operating at below normal utilisation due to the sales shortfall. In addition, the unprecedented volatility in costs referred to above adversely impacted profits as these could not be fully recovered through price increases in the short term.

	2008	2007	2006	2005	2004
External sales \$m					
Industrial thread & zips	1,071.3	1,087.6	1,030.1	996.2	987.7
Crafts	574.1	593.6	585.0	640.5	590.5
Total	1,645.4	1,681.2	1,615.1	1,636.7	1,578.2
Sales growth					
Industrial thread & zips	-1%	+6%	+3%	+1%	+1%
Crafts	-3%	+1%	-9%	+8%	+13%
Total	-2%	+4%	-1%	+4%	+5%
Pre-exceptional operating profit/(loss) \$m					
Industrial thread & zips	109.9	132.6	103.6	68.5	49.3
Crafts	(7.1)	25.5	18.8	58.0	41.2
Total	102.8	158.1	122.4	126.5	90.5
Pre-exceptional operating margin					
Industrial thread & zips	10%	12%	10%	7%	5%
Crafts	-1%	4%	3%	9%	7%
Total	6%	9%	8%	8%	6%

The crafts result was below expectations, with a loss overall of \$7.1 million (2007 – \$25.5 million profit). In the Americas, crafts sales were 2% up on 2007 and profits were broadly in line. Overall this was a good performance, given the downturn in the North American consumer environment. Profits of \$34.5 million (2007 – \$44.5 million) were generated from the crafts business in the Americas and Asia.

In Europe, where the consumer environment was fragile, crafts sales were 11% down on 2007 levels, primarily due to the weak demand for crafts products, particularly handknittings. On a like-for-like basis, Europe crafts sales were 14% down on 2007, following a 16% like-for-like decrease reported in 2007. The severe downturn in the European crafts market led to operating losses from Coats European crafts business increasing by \$22.6 million to \$41.6 million. Gross margins were impacted by the rationalisation of the product offer, which resulted in stock from discontinued product ranges being sold at lower than normal margins, partly offset by some price increases. Distribution and administration costs benefited from reorganisation projects to reduce the cost base, which are continuing, and lower advertising and marketing spend, partly offset by higher freight costs, reflecting higher oil prices during the year, and bad debt provisioning charges. The Europe crafts headcount was reduced by 15% during the year, including from major reorganisation projects in Central Europe and Scandinavia.

Further details on operating performance by region are included in the Operating review.

The results for industrial and crafts, as reported over the last five years, provide the context for the current year's performance.

Net debt

Net debt finished the year at \$346.0 million (2007 – \$335.9 million including amounts owed to GPG of \$55.0 million). Excluding the EC fine payment in the year of \$27.9 million, net debt at \$318.1 million was below 2007. This is after investment in new plant and systems and reorganisation projects in the year of \$87.9 million.

Investment

Significant investment continued to be made in the year to support the business through the global downturn, to ensure that the business is well positioned and to grow market share. The capital invested in new plant and systems amounted to \$53.6 million (2007 – \$68.8 million). Investment in plant and equipment consisted of productivity improvement projects in Europe, including investment to support the rationalisation of the crafts business. In addition, there has been capacity expansion in Asia, although to a lesser extent than in 2007 as the focus has been on increasing the productivity of existing plant and technology. Investment continues to be made in upgrading IT systems, including the installation of SAP in all Coats units throughout the world.

Reorganisation spend was \$34.3 million (2007 – \$44.6 million). Approximately half of this spend in 2008 was directed towards restructuring in Europe. This includes the major restructuring of the European crafts business, which is transforming the formerly country-based organisation each with its own product range into a more cost effective pan-European business with a single, harmonised product offer and improved supply chains, and reducing the European crafts distribution and administration cost base. This restructuring will continue in 2009. Notwithstanding that some functions in Asia which had previously been contracted out were brought in house (resulting in a 784 decrease in contractors in that region), total numbers employed in the Group fell by 2% to 22,081 (2007 – 22,428) at the end of the year. Only 8% of industrial employees and 42% of crafts employees were in high cost countries.

Reorganisation cash outflows were partly offset by \$14.4 million (2007 – \$25.9 million) proceeds from the sale of properties which had become surplus as a result of the Group's reorganisation programme.

European Commission Investigation

Having succeeded in its initial appeal to the Court of First Instance in reducing the needles fine from €30 million to €20 million, Coats was unsuccessful in its further appeal to the European Court of Justice. The fine was paid in the course of 2008.

As noted in last year's report, 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 a fine against the Coats plc Group of €110.3 million. 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 the allegation and demonstrated that, in any event, a fine was time-barred. Coats is vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

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

Prospects

The present economic situation clearly holds great challenges for all businesses. The world is in economic turmoil, which makes the outcome for the next year difficult, if not altogether impossible, to predict. What is known is that the prices of many commodities and materials used by Coats have decreased and the current strength of the US dollar compared to the currencies of many of the countries Coats operates in is improving the competitiveness of these countries.

In respect of the industrial business, there are no signs of improvement in consumer demand and the pressures on sales seen in the last quarter of 2008 are expected to continue in 2009. Sales in US dollar terms are also expected to show further decreases due to the weakness of local currencies in Coats' major domestic markets.

In crafts, profitability improvement in 2009 is expected, which is almost entirely dependent on Europe crafts. The European crafts market is expected to continue to decline, but benefits will flow through from the restructuring initiatives taken, including reducing the cost base. In the Americas, it is anticipated that current sales and profit levels will be maintained.

Reorganisation spend will continue in 2009, particularly in Europe.

It is expected that the Group's tax rate will reduce as profitability in Europe improves.

Gary Weiss

Chairman

21 April 2009

Industrial trading performance

	2008 reported \$m	2007* like-for-like \$m	2007 reported \$m	Like-for-like increase/ (decrease) full year %	Like-for-like increase/ (decrease) at the 2008 half year %	Actual increase/ (decrease) full year %
Sales						
Asia and Rest of World	520.9	506.4	511.1	+3%	+6%	+2%
Europe	248.9	285.1	269.0	-13%	-9%	-7%
Americas	301.5	314.2	307.5	-4%	-3%	-2%
Total sales	1,071.3	1,105.7	1,087.6	-3%	-1%	-1%
Pre-exceptional operating profit**	109.9	133.8	132.6	-18%	+3%	-17%

*2007 like-for-like restates 2007 figures at 2008 exchange rates.

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

In the following comments, all comparisons with 2007 are on a like-for-like basis.

Industrial trading performance

The Asian industrial performance reflects a flat Asian apparel export sector, with currency appreciation against the US dollar during the year in many of Coats' key Asian markets putting pressure on the competitiveness of Asian exports. However, Coats has gained share in some Asian markets, benefiting from the investment it has made in additional production capacity and from its relationships with global suppliers and brand owners. The volatility of material prices and cost inflation put pressure on margins.

Western European sales continued to be affected by customer migration from the region and, in the second half, destocking by customers as economic conditions worsened. There has also been some decline in Eastern Europe, reflecting the general market slowdown and some customer migration as cost pressures increased in this region.

The Americas continued to be affected by increased penetration of apparel and footwear imports from Asia, further compounded by weak retail demand.

Crafts trading performance

There has been further decline in the already weak European retail market for crafts products and sales overall were down 14% on last year. This was mainly driven by the continuing decline in the demand for handknittings. The new harmonised consumer sewings ranges have resulted in share gains in a gently declining market. Good progress has been made through the major restructuring of this business to lower the cost base, improve productivity and deliver a harmonised pan-European product offer. However, this business has a relatively high fixed-cost base and, given the severe downturn in the European crafts market, further restructuring projects are continuing in 2009 to reduce the distribution and administration cost base.

Crafts results in the Americas reflect a relatively stable handknittings market in North America and strong growth in handknittings in South America, with some impact from cost pressures. Sales from the relatively new lifestyle fabrics category in North America were also strong and this will be built on in 2009. Overall this was a good performance by the region, given the downturn in the North American consumer environment.

Crafts trading performance

	2008 reported \$m	2007* like-for-like \$m	2007 reported \$m	Like-for-like increase/ (decrease) full year %	Like-for-like increase/ (decrease) at the 2008 half year %	Actual increase/ (decrease) full year %
Sales						
Asia and Rest of World	67.5	61.6	64.8	+10%	+8%	+4%
Europe	222.6	260.2	249.1	-14%	-10%	-11%
Americas	284.0	283.9	279.7	—	+3%	+2%
Total sales	574.1	605.7	593.6	-5%	-2%	-3%
Pre-exceptional operating (loss)/profit**	(7.1)	24.6	25.5	-129%	-133%	-128%

*2007 like-for-like restates 2007 figures at 2008 exchange rates.

**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 \$22.0 million (2007 – \$25.4 million). Net interest payable before exceptional items, after including \$2.0 million (2007 – \$2.4 million) of interest receivable shown in investment income, reduced from \$42.0 million in 2007 to \$36.2 million in 2008. Coats refinanced in June 2008 with a new main borrowing facility of \$625.0 million. In addition, 2008 benefited from \$3.0 million lower facility fee amortisation charges than 2007. The net return on pension scheme assets and liabilities decreased by \$3.5 million to \$19.6 million.

Exceptional finance income was \$56.2 million (2007 – \$20.8 million finance cost) and relates entirely to notional interest on the subordinated and convertible amounts owed to the parent company of \$150.7 million (2007 – \$194.0 million). As explained in note 23, notional interest of \$67.3 million that had been charged in previous years was reversed in 2008 following the extension of the term of the subordinated and convertible amounts owed to the parent undertaking from March 2011 to June 2013, in connection with the refinancing of the Group's main borrowing facility, referred to above.

Tax

The tax charge was \$37.8 million (2007 – \$43.2 million) on pre-tax profit of \$110.9 million (2007 – \$74.8 million). On a pre-exceptional basis and excluding prior year charges of \$3.8 million (2007 – \$1.7 million), the tax rate was 46% for 2008 compared to 33% in the previous year. This high 2008 rate reflects unrelieved losses in certain territories, principally in Europe. It is expected that the Group's tax rate will reduce as profitability in Europe improves. The Group has significant losses available to reduce future tax payments.

Discontinued operations

The \$4.5 million loss in 2008 from discontinued operations largely relates to UK vacant property provisioning. The \$14.6 million profit in 2007 principally relates to the sale of a 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 continues to show a recoverable surplus, of \$10.2 million (2007 – \$21.9 million) and the USA scheme also shows a recoverable surplus, of \$32.6 million (2007 – \$35.0 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 fully provided in the Group accounts and are predominantly included in current and non-current liabilities.

Cash flow

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was \$169.9 million (2007 – \$225.6 million).

The net operating cash flow before reorganisation costs remained strong at \$158.4 million (2007 – \$190.7 million). Operating cash flow included the benefit of a \$41.9 million reduction (2007 – \$3.0 million increase) in net working capital, with lower stock and debtors than at the 2007 year end.

Reorganisation spend was \$34.3 million (2007 – \$44.6 million). Spend on capital projects at \$53.6 million was lower than in the previous year (2007 – \$68.8 million), representing 0.8 times (2007 – 1.0 times) depreciation and amortisation. Including the realisation of \$14.4 million (2007 – \$25.9 million) from the sale of surplus property, reorganisation and capital spend was comfortably covered by internally generated cash flow.

Interest and tax paid was \$82.4 million (2007 – \$76.2 million).

Net debt finished the year at \$346.0 million (2007 – \$335.9 million including amounts owed to GPG of \$55.0 million). Excluding the EC fine payment in the year of \$27.9 million, net debt at \$318.1 million was below 2007.

Balance sheet

Equity shareholders' funds decreased from \$323.8 million to \$271.6 million, primarily reflecting attributable profit of \$64.3 million offset by losses of \$103.6 million taken directly to reserves. These largely represent exchange and actuarial losses. Exchange losses of \$57.9 million (2007 – \$34.3 million gains) arose on the translation of operations with functional currencies other than the US dollar, reflecting the strength of the US dollar at the year end. Actuarial losses of \$35.1 million (2007 – \$4.7 million) arose in respect of the Group's pension and other post-employment assets and provisions. As noted above, the Group's key funded defined benefit plans remain in surplus. In addition, \$12.6 million (2007 – \$7.0 million) losses arose on interest rate swaps utilised for hedging purposes and carried at market value.

Executive Director

Michael Smithyman (Aged 63) 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 55) 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 Westfield Group. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

Anthony Gibbs (Aged 61) 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 and Turners & Growers and an executive director of Guinness Peat Group plc. He is a member of the Remuneration Committee.

Blake Nixon (Aged 48) Appointed a Director in 2003, he has wide experience of corporate finance both in the UK and Australia. He is an executive director of Guinness Peat Group plc. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Rex Wood-Ward (Aged 60) Appointed a Director in 2003, he has over 35 years international experience in general management, mergers and acquisitions and corporate strategy and has served on the boards of listed companies in South Africa, England and Australia. He is currently a non-executive director of Westcity plc and Capral Limited. He is a member of the Audit Committee and the Remuneration Committee.

Company Secretary: Roger Bevan

Auditors: Deloitte LLP

The Directors present their report and the financial statements for the year ended 31 December 2008.

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 (2007 – \$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 meet all local legislation and comply with Coats global policies. Coats Worldwide Employment Standards Statement sets out 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. Global employment policies address the following principles:

- Working conditions – the Group believes the human rights of its employees at work are an absolute and universal requirement. Coats subscribes to the United Nations Universal Declaration of Human Rights, the Convention of the Rights of the Child, the ILO Conventions and the OECD Guidelines for Multinationals.
- Equal opportunities/non-discrimination – in employment related matters (including recruitment, access to training and promotion, transfer, employment termination, discipline, compensation and benefits) decisions are made on the basis of the qualifications, performance record and abilities needed for the work to be undertaken, and relevant business circumstances.

The Group is committed to equal opportunities at work; employees should not engage in or support discrimination based on race, colour, language, caste, national origin, indigenous status, religion, disability, gender, marital status, union membership, political affiliation, or age. Where existing employees become disabled, our policy is to provide continuing employment and training wherever practicable.

- Working environment and occupational health and safety – the Group is committed to providing a safe and healthy working environment and to ensuring, so far as is reasonably practicable, the health, safety and welfare at work of its employees. The Company's Health and Safety Policy is publicly available and a Health and Safety Management System is in place to coordinate the management of occupational health and safety across the Group.

The Group continuously develops its employment practices and policies and uses best practice to the benefit of its worldwide operations.

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 and 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 2008 was 0.85 compared to 1.02 in 2007 and compared to the OSHA rate for the whole textile industry in the USA for 2007 (latest figure available) of 4.0.

Environmental management During 2008 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.

During 2008, we have had no reportable environmental incidents (2007 – nil).

Our Restricted Substances List continues to be extended and we have added some additional chemicals in 2008. 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 2009 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 delivers substantial benefits giving us seamless colour management across all units. In addition, during 2008 we have devoted significant resources to the development and implementation of new coating technologies. This work is continuing in 2009.

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 2008 were equivalent to 78 (2007 – 76) 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 credit risk, foreign currency and interest rate 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 \$14,000 (2007 – \$27,000) 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.

The auditors, Deloitte & Touche LLP, have changed their name in the past year to Deloitte LLP. A resolution to re-appoint Deloitte 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) as adopted by the EU, 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

21 April 2009

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 2008 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 2008.

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 2008 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 \$154.2 million at 2008 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 fine is adequately covered by existing provisions.

Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
21 April 2009

12 Consolidated income statement

		2008			2007		
	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 2008							
Continuing operations							
Revenue	4	1,645.4	–	1,645.4	1,681.2	–	1,681.2
Cost of sales		(1,042.8)	(28.4)	(1,071.2)	(1,040.4)	(46.4)	(1,086.8)
Gross profit		602.6	(28.4)	574.2	640.8	(46.4)	594.4
Distribution costs		(310.7)	–	(310.7)	(303.7)	–	(303.7)
Administrative expenses		(190.2)	–	(190.2)	(179.6)	–	(179.6)
Other operating income	4	1.1	0.8	1.9	0.6	7.1	7.7
Operating profit	5&6	102.8	(27.6)	75.2	158.1	(39.3)	118.8
Share of profits of joint ventures		1.5	–	1.5	2.2	–	2.2
Investment income	8	2.2	–	2.2	2.6	–	2.6
Finance income/(costs)	9	(24.2)	56.2	32.0	(28.0)	(20.8)	(48.8)
Profit before taxation		82.3	28.6	110.9	134.9	(60.1)	74.8
Taxation	10	(41.5)	3.7	(37.8)	(46.5)	3.3	(43.2)
Profit from continuing operations		40.8	32.3	73.1	88.4	(56.8)	31.6
Discontinued operations							
(Loss)/profit from discontinued operations	11	(4.5)	–	(4.5)	14.6	–	14.6
Profit for the year		36.3	32.3	68.6	103.0	(56.8)	46.2
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY	28	31.6	32.7	64.3	97.7	(56.7)	41.0
Minority interests		4.7	(0.4)	4.3	5.3	(0.1)	5.2
		36.3	32.3	68.6	103.0	(56.8)	46.2

At 31 December 2008	Notes	2008 \$m	2007 \$m
Non-current assets			
Intangible assets	12	266.7	270.6
Property, plant and equipment	13	460.9	520.7
Investments in joint ventures and associates	15	15.9	16.1
Available-for-sale investments	20	2.9	4.0
Deferred tax assets	24	13.4	13.9
Pension surpluses	33	41.7	63.7
Trade and other receivables	17	23.7	23.1
		825.2	912.1
Current assets			
Inventories	16	296.6	347.4
Trade and other receivables	17	252.6	333.6
Current income tax assets		7.0	3.5
Available-for-sale investments	20	0.2	0.2
Cash and cash equivalents	30	86.6	84.6
		643.0	769.3
Non-current assets classified as held for sale	11	1.4	2.5
Total assets		1,469.6	1,683.9
Current liabilities			
Amounts owed to parent undertaking		–	(55.0)
Trade and other payables	18	(312.4)	(373.4)
Current income tax liabilities		(9.1)	(11.4)
Bank overdrafts and other borrowings	19	(109.7)	(104.6)
Provisions	22	(110.3)	(162.2)
		(541.5)	(706.6)
Net current assets		101.5	62.7
Non-current liabilities			
Amounts owed to parent undertaking (subordinated and convertible)	23	(150.7)	(194.0)
Trade and other payables	18	(26.8)	(20.4)
Deferred tax liabilities	24	(23.7)	(17.3)
Borrowings	19	(322.9)	(260.9)
Retirement benefit obligations:			
Funded schemes	33	(4.8)	(1.8)
Unfunded schemes	33	(92.3)	(101.6)
Provisions	22	(18.1)	(39.1)
		(639.3)	(635.1)
Liabilities directly associated with non-current assets classified as held for sale	11	(0.5)	–
Total liabilities		(1,181.3)	(1,341.7)
Net assets		288.3	342.2
Equity			
Share capital	25	137.9	137.9
Equity reserve	26	141.1	154.0
Hedging and translation reserves	27	(28.2)	42.3
Retained profit/(loss)	28	20.8	(10.4)
EQUITY SHAREHOLDERS' FUNDS	29	271.6	323.8
Minority interests	29	16.7	18.4
Total equity	29	288.3	342.2

The financial statements were approved by the Board of Directors and authorised for issue on 21 April 2009.

They were signed on its behalf by:

Blake Nixon, Director

21 April 2009

14 Consolidated cash flow statement

For the year ended 31 December 2008	Notes	2008 \$m	2007 \$m
Cash inflow/(outflow) from operating activities			
Net cash inflow generated by operations	30	124.1	146.1
Interest paid		(43.2)	(40.4)
Taxation paid		(39.2)	(35.8)
Net cash generated from operating activities		41.7	69.9
Cash inflow/(outflow) from investing activities			
Dividends received from associates and joint ventures		0.7	2.3
Acquisition of property, plant and equipment and intangible assets		(53.6)	(68.8)
Disposal of property, plant and equipment and intangible assets		14.4	25.9
Acquisition of financial investments		(0.2)	–
Disposal of financial investments		0.1	0.2
Acquisition of subsidiaries	30	(0.1)	(9.8)
Disposal of subsidiaries	30	(0.4)	2.0
Net cash absorbed in investing activities		(39.1)	(48.2)
Cash inflow/(outflow) from financing activities			
Dividends paid to minority interests		(4.9)	(2.7)
(Decrease)/increase in amounts owed to parent undertaking		(55.0)	55.0
Increase/(decrease) in debt and lease financing		68.8	(56.7)
Net cash generated/(absorbed) in financing activities		8.9	(4.4)
Net increase in cash and cash equivalents		11.5	17.3
Net cash and cash equivalents at beginning of the year		68.2	50.1
Foreign exchange (losses)/gains on cash and cash equivalents		(14.3)	0.8
Net cash and cash equivalents at end of the year	30	65.4	68.2
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents		11.5	17.3
Cash (inflow)/outflow from change in debt and lease financing		(68.8)	56.7
Change in net debt resulting from cash flows		(57.3)	74.0
Other		(3.8)	(6.8)
Foreign exchange		(4.0)	(2.4)
(Increase)/decrease in net debt		(65.1)	64.8
Net debt at start of year		(280.9)	(345.7)
Net debt at end of year	30	(346.0)	(280.9)

For the year ended 31 December 2008	Notes	2008 \$m	2007 \$m
Losses on cash flow hedges		(14.0)	(3.7)
Exchange differences on translation of foreign operations		(59.0)	34.4
Actuarial losses in respect of retirement benefit schemes	33	(35.1)	(4.7)
Tax on items taken directly to equity		2.0	(1.1)
Net (expense)/income recognised directly in equity		(106.1)	24.9
Profit for the year		68.6	46.2
Transferred to profit or loss on cash flow hedges		1.4	(3.3)
Total recognised income and expense for the year	29	(36.1)	67.8
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		(39.3)	62.5
Minority interests		3.2	5.3
		(36.1)	67.8

16 Notes to the consolidated accounts

1 General information

Coats plc is a company incorporated in Great Britain under the Companies Act 1985. The address of its registered office is 1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD.

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.

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:

IFRS 2 (Revised) – Share-based Payment

IAS 1 (Revised) – Presentation of Financial Statements

IAS 23 (Revised) – Borrowing Costs

IAS 32 (Revised) – Financial Instruments: Presentation

IAS 39 (Revised) – IAS 39 Financial Instruments: Recognition and Measurement

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

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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.

IFRS 3 (Revised) – Business Combinations and IAS 27 (Revised) – Consolidated and Separate Financial Statements will both be applied prospectively to transactions occurring after the implementation date. It is therefore not possible to assess in advance their impact on the financial statements of the Group.

IFRIC 12, 15, 17 and 18 are published interpretations to existing standards that are not relevant to the Group's current operations.

(b) Going concern basis

The nature of the Group's operations and its principal activities, together with the factors likely to affect its future development, principal risks and uncertainties, performance and position 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.

The Directors have made enquiries into the adequacy of the Group's financial resources, through a review of the current financial projections, reorganisation and capital expenditure plans and the financing facilities available. The Group's forecasts and projections take account of reasonably possible changes in trading performance. Giving due consideration to the financial resources available to the Group, the Directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements. In reaching their view on going concern, the Directors considered the six categories of risk described in more detail in note 21 to the financial statements.

(c) 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.

2 Principal accounting policies (continued)

(c) Basis of consolidation (continued)

(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.

(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.

(d) 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.

(e) 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.

18 Notes to the consolidated accounts (continued)

2 Principal accounting policies (continued)

(e) Foreign currencies (continued)

(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:

		2008	2007
Average	Sterling	0.54	0.50
	Euro	0.68	0.73
Year end	Sterling	0.68	0.50
	Euro	0.72	0.68

(f) 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.

2 Principal accounting policies (continued)

(g) 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. Details of the annual goodwill impairment review are provided in Note 12.

(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.

(h) 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.

(i) 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.

(j) 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.

2 Principal accounting policies (continued)**(k) 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 are 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.

(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.

(l) 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.

2 Principal accounting policies (continued)

(m) 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.

(n) 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.

(o) 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.

2 Principal accounting policies (continued)

(o) Financial Instruments (continued)

(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 or at the date of a substantial modification to the terms of a convertible loan, 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 was originally determined as at the date of issue of the amounts owed to the parent undertaking in March 2004 and was subsequently determined in June 2008, the date of a substantial modification of the terms of the compound financial instrument, 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 and as at the date of the substantial modification, included in non-current liabilities, was calculated using a discounted cash flow analysis of future cash flows, applying an effective interest rate of 12% and 15% respectively which the Group considers are comparable rates based on prevailing market rates for similar non-convertible instruments at the respective dates. 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.

(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.

2 Principal accounting policies (continued)

(p) 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.

(q) 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.

(r) 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 judgments 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 judgments 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 are 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 \$154.2 million at 2008 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 fine 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 IAS 18, is as follows:

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Sale of goods – continuing operations	1,645.4	1,681.2
Other income	1.1	0.6
Investment income (note 8)	2.2	2.6
	1,648.7	1,684.4

Other operating income as reported in the consolidated income statement includes:

Other income (as above)	1.1	0.6
Profit on the sale of property	3.3	7.1
Loss on disposal of business (note 11)	(2.5)	–
	1.9	7.7

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 2008 \$m	Year ended 31 December 2007 \$m
Cost of sales:		
Reorganisation costs and impairment of property, plant and equipment and computer software	32.6	40.0
Foreign exchange (gains)/losses	(4.2)	6.4
	28.4	46.4
Other operating income:		
Profit on the sale of property	(3.3)	(7.1)
Loss on disposal of business (note 11)	2.5	–
	(0.8)	(7.1)
Finance (income)/costs:		
Notional interest on amounts owed to parent undertaking (subordinated and convertible) – see note 23	(56.2)	20.8
Taxation	(3.7)	(3.3)
	(32.3)	56.8

6 Operating profit

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

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Depreciation of property, plant and equipment	58.1	59.3
Amortisation of computer software included in administrative expenses	8.7	7.9
Amortisation of computer software included in cost of sales	0.3	0.3
Impairment of goodwill	–	0.1
Negative goodwill arising on acquisitions	–	(0.1)
Research and development expenditure	0.6	0.7
Cost of inventories recognised as an expense	630.2	625.6
Net foreign exchange losses	3.5	1.3
Auditors' remuneration (see note below)	3.8	3.7

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	0.4	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	2.6	2.5
Services relating to taxation:		
– Advisory	0.5	0.3
– Compliance	0.1	0.2
All other services	0.2	0.3
	3.8	3.7

7 Staff costs

The average monthly number of employees was:

	Year ended 31 December 2008 Number	Year ended 31 December 2007 Number
Continuing operations:		
Direct	14,086	14,035
Indirect	2,846	2,877
Other staff	6,453	6,423
	23,385	23,335
Comprising:		
Continuing operations:		
UK	300	317
Overseas	23,085	23,018
	23,385	23,335

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

Continuing operations:		
UK	296	277
Overseas	21,785	22,151
	22,081	22,428

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Their aggregate remuneration comprised:		
Continuing operations:		
Wages and salaries	336.7	341.4
Social security costs	44.1	46.1
Other pension costs (note 33)	15.1	15.5
Total remuneration	395.9	403.0

26 Notes to the consolidated accounts (continued)

8 Investment income

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Interest receivable and similar income	2.0	2.4
Income from other investments	0.2	0.2
	2.2	2.6

9 Finance (income)/costs

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Non-exceptional items		
Amounts payable to parent undertakings	0.3	0.1
Interest on bank loans and overdrafts	36.7	42.8
Interest on other borrowings	1.5	1.6
Net return on pension scheme assets and liabilities (note 33)	(19.6)	(23.1)
Unwinding of discounts on provisions	0.6	0.5
Interest on obligations under finance leases	0.2	0.2
Net (gains)/losses on derivatives held at fair value through income statement	(1.4)	2.2
Other	5.9	3.7
	24.2	28.0
Exceptional items		
Notional interest on amounts owed to parent undertaking (subordinated and convertible) – see note 23	(56.2)	20.8
Total finance (income)/costs	(32.0)	48.8

10 Taxation

		Year ended 31 December 2008 \$m		Year ended 31 December 2007 \$m
UK taxation based on profit for the year:				
Corporation tax at 28.5% (2007: 30%)		5.6		7.6
Double taxation relief		(5.6)		(7.6)
Total UK taxation		–		–
Overseas taxation:				
Current taxation		32.8		42.3
Deferred taxation (note 24)		1.2		(0.8)
		34.0		41.5
Prior year adjustments:				
Current taxation	(2.3)		–	
Deferred taxation (note 24)	6.1		<u>1.7</u>	
		3.8		1.7
		37.8		43.2

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 2008 \$m	Year ended 31 December 2007 \$m
Profit before taxation	110.9	74.8
Tax at the UK corporation tax rate of 28.5% (2007: 30%)	31.6	22.4
Adjusted for the effects of:		
Adjustments in respect of prior years	3.8	1.7
Deferred taxation not provided	26.2	12.6
Expenses not deductible for tax purposes	12.2	16.3
Withholding tax on remittances	4.7	7.9
Intra-Group dividends not covered by double tax relief	(4.4)	–
Utilisation of brought forward losses not previously recognised	(6.2)	(5.6)
Lower rates of tax on overseas earnings	(12.3)	(9.2)
Income not liable to taxation	(25.3)	(9.2)
Other	7.5	6.3
	37.8	43.2

11 Discontinued operations and non-current assets/(liabilities) classified as held for sale

The results of discontinued operations are as follows:

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Expenses, including lease related amounts, attributable to discontinued operations	(4.5)	(0.7)
Profit on disposal of properties from discontinued operations	–	11.0
Profit on disposal of discontinued operations	–	4.3
Net (loss)/profit attributable to discontinued operations	(4.5)	14.6

Non-current assets classified as held for sale of \$1.4 million (2007 – \$2.5 million) consist of surplus properties in both the current and prior year.

Liabilities directly associated with non-current assets classified as held for sale of \$0.5 million (2007 – \$nil) consist of trade and other payables of \$0.4 million and provisions of \$0.1 million in respect of a business disposed of on 1 January 2009. A loss arose (included in continuing operations) on classification of the disposal group as held for sale of \$2.5 million (2007 – \$nil).

28 Notes to the consolidated accounts (continued)

12 Intangible assets

	Goodwill \$m	Brands \$m	Computer software \$m	Total \$m
Cost				
At 1 January 2007	235.2	4.8	56.1	296.1
Exchange difference	0.1	0.3	3.6	4.0
On acquisition of subsidiaries	1.7	2.1	–	3.8
Additions	–	–	11.5	11.5
Reclassification	–	–	1.8	1.8
Disposals	–	–	(1.1)	(1.1)
At 31 December 2007	237.0	7.2	71.9	316.1
At 1 January 2008	237.0	7.2	71.9	316.1
Exchange difference	–	(0.6)	(4.2)	(4.8)
On acquisition of subsidiaries (note 30)	–	0.1	–	0.1
Additions	–	–	6.4	6.4
Reclassification	–	–	0.7	0.7
Disposals	–	–	(1.9)	(1.9)
At 31 December 2008	237.0	6.7	72.9	316.6
Amortisation and impairment				
At 1 January 2007	–	0.5	34.7	35.2
Exchange difference	–	–	2.5	2.5
Charge for the year	–	–	8.2	8.2
Impairment	0.1	–	(1.1)	(1.0)
Reclassification	–	–	1.6	1.6
Disposals	–	–	(1.0)	(1.0)
At 31 December 2007	0.1	0.5	44.9	45.5
At 1 January 2008	0.1	0.5	44.9	45.5
Exchange difference	–	–	(2.7)	(2.7)
Charge for the year	–	–	9.0	9.0
Disposals	–	–	(1.9)	(1.9)
At 31 December 2008	0.1	0.5	49.3	49.9
Net book value				
At 31 December 2008	236.9	6.2	23.6	266.7
At 31 December 2007	236.9	6.7	27.0	270.6

At 31 December 2007 the carrying amount of the Group's computer software included an amount of \$0.3 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 2011, applying a pre-tax weighted average cost of capital of 13% (2007 – 15%) and a terminal value including no growth.

During the year ended 31 December 2007 computer software that had been impaired in a prior year was brought back into use resulting in an impairment reversal of \$1.1 million.

13 Property, plant and equipment

	Land and buildings \$m	Fixtures and equipment \$m	Total \$m
Cost			
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
At 1 January 2008	258.7	974.2	1,232.9
Exchange difference	(18.8)	(86.6)	(105.4)
Additions	7.9	40.0	47.9
Reclassifications to non-current assets held-for-sale	(16.9)	–	(16.9)
Other reclassifications	(0.8)	0.1	(0.7)
Disposals	–	(37.3)	(37.3)
At 31 December 2008	230.1	890.4	1,120.5
Accumulated depreciation and impairment			
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
At 1 January 2008	102.6	609.6	712.2
Exchange difference	(6.6)	(59.8)	(66.4)
Charge for the year	6.4	51.7	58.1
Impairment	–	0.4	0.4
Reclassifications to non-current assets held-for-sale	(9.6)	–	(9.6)
Other reclassifications	0.3	(0.3)	–
Disposals	–	(35.1)	(35.1)
At 31 December 2008	93.1	566.5	659.6
Net book value			
At 31 December 2008	137.0	323.9	460.9
At 31 December 2007	156.1	364.6	520.7

The carrying amount of the Group's fixtures and equipment includes an amount of \$0.1 million (2007 – \$0.4 million) in respect of assets held under finance leases.

Property, plant and equipment with a net book value of \$13.3 million (2007 – \$28.8 million) has been pledged to secure borrowings of the Group (see note 21).

As at 31 December 2008, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$2.0 million (2007 – \$2.2 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
Cost			
At 1 January 2007 and 31 December 2008	13.4	0.2	13.6
Share of profits/(losses) retained			
At 1 January 2007	2.8	(0.2)	2.6
Share of profits for the year	2.2	–	2.2
Dividends paid	(2.3)	–	(2.3)
At 31 December 2007	2.7	(0.2)	2.5
At 1 January 2008	2.7	(0.2)	2.5
Share of profits for the year	1.5	–	1.5
Dividends paid	(1.7)	–	(1.7)
At 31 December 2008	2.5	(0.2)	2.3
Net book value			
At 31 December 2008	15.9	–	15.9
At 31 December 2007	16.1	–	16.1

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

	2008 \$m	2007 \$m
Aggregated amounts relating to joint ventures		
Total assets	38.8	38.9
Total liabilities	(7.0)	(6.7)
Revenues	41.6	52.1
Profit after taxation	3.0	4.4
Aggregated amounts relating to associates		
Total assets	28.4	37.3
Total liabilities	(28.4)	(37.3)
Revenues	22.8	27.8

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

	2008 \$m	2007 \$m
Raw materials	80.1	80.5
Work-in-progress	67.8	91.8
Finished goods	148.7	175.1
	296.6	347.4

17 Trade and other receivables

	2008 \$m	2007 \$m
Non-current assets		
Taxation recoverable	8.3	6.8
Derivative financial instruments	–	0.8
Other receivables	15.4	15.5
	23.7	23.1
Current assets		
Trade receivables	197.5	284.1
Amounts due from parent undertaking	3.1	–
Due from joint ventures and associates	0.4	0.6
Prepayments and accrued income	13.1	14.5
Derivative financial instruments	1.1	1.8
Pension surpluses	4.4	3.1
Other receivables	33.0	29.5
	252.6	333.6

The ageing of overdue trade receivables is as follows:

	2008 \$m	2007 \$m
Amounts due up to 1 month beyond trade credit period	24.6	30.4
Amounts due between 1 and 2 months beyond trade credit period	10.3	12.3
Amounts due between 2 and 3 months beyond trade credit period	4.9	5.8
Amounts due between 3 and 6 months beyond trade credit period	7.3	8.4
Amounts due more than 6 months beyond trade credit period	18.1	18.3
Gross amounts due beyond trade credit period	65.2	75.2
Provisions	(21.8)	(27.8)
Amounts due beyond trade credit period net of provisions	43.4	47.4
Trade receivables within credit period	155.0	236.7
Trade receivables	198.4	284.1
Included in non-current assets	0.9	–
Included in current assets	197.5	284.1
	198.4	284.1

Movements in provisions:

	2008 \$m	2007 \$m
At 1 January	27.8	22.5
Exchange difference	(0.7)	1.5
Amounts charged to the consolidated income statement	4.2	7.6
Utilised	(9.5)	(3.8)
At 31 December	21.8	27.8

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

	2008 \$m	2007 \$m
Fair value through the income statement:		
Foreign exchange contracts	1.1	2.2
Cash flow hedges:		
Interest rate swaps	–	0.4
	1.1	2.6

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

	2008 \$m	2007 \$m
Current liabilities		
Trade creditors	201.8	239.6
Due to joint ventures and associates	4.7	12.6
Other taxes and social security payable	11.3	12.2
Accruals and deferred income	58.7	73.0
Derivative financial instruments	8.3	2.8
Other creditors	27.6	33.2
	312.4	373.4
Non-current liabilities		
Tax liabilities	15.9	19.0
Derivative financial instruments	10.2	0.8
Other creditors	0.7	0.6
	26.8	20.4

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

	2008 \$m	2007 \$m
Fair value through the income statement:		
Foreign exchange contracts	5.3	2.5
Cash flow hedges:		
Interest rate swaps	13.2	1.1
	18.5	3.6

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

	2008 \$m	2007 \$m
Bank overdrafts	21.2	16.4
Loans	411.3	347.5
Obligations under finance leases	0.1	1.6
	432.6	365.5

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

On demand or within one year	109.7	104.6
In the second year	40.2	80.3
In the third to fifth years inclusive	278.6	174.1
After five years	4.1	6.5
	432.6	365.5
Less: Amount due for settlement within one year (shown under current liabilities)	(109.7)	(104.6)
Amount due for settlement after more than one year	322.9	260.9

19 Bank overdrafts and other borrowings (continued)

The obligations under finance leases are payable as follows:

	2008		2007	
	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
In the second to fifth years inclusive	0.1	0.1	0.1	0.1
	0.1	0.1	<u>1.6</u>	<u>1.6</u>
Less: Amount due for settlement within one year (shown under current liabilities)		–		(1.5)
Amount due for settlement after more than one year		0.1		0.1

Analysis of borrowings by currency

	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
At 31 December 2008					
Bank overdrafts	3.8	4.9	–	12.5	21.2
Loans	368.0	1.6	19.2	22.5	411.3
Obligations under finance leases	–	–	–	0.1	0.1
	371.8	6.5	19.2	35.1	432.6
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

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 2008				
Bank overdrafts	21.2	–	–	21.2
Loans	392.1	19.2	–	411.3
Obligations under finance leases	0.1	–	–	0.1
Total borrowings	413.4	19.2	–	432.6
Effect of interest rate swaps (note 21)	(180.0)	180.0	–	–
	233.4	199.2	–	432.6
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

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:

	2008 %	2007 %
Bank overdrafts	8.4	8.1
Loans	5.6	7.0
Obligations under finance leases	6.0	6.0

Loans of \$392.1 million (2007 – \$321.3 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 \$270.0 million (2007 – \$205.0 million) as set out in note 21.

Loans of \$19.2 million (2007 – \$26.2 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:

	2008 \$m	2007 \$m
Financial assets carried at cost (loans and receivables):		
Cash and cash equivalents	86.6	84.6
Trade receivables (note 17)	198.4	284.1
Other receivables	2.2	3.6
	287.2	372.3
Financial assets carried at fair value through profit or loss:		
Derivative financial instruments (note 17)	1.1	2.2
Other financial assets carried at fair value:		
Derivative financial instruments (note 17)	–	0.4
Available-for-sale investments	3.1	4.2
	3.1	4.6
Total financial assets	291.4	379.1

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 2008					
Cash and cash equivalents	20.6	8.5	0.2	57.3	86.6
Trade receivables	51.5	55.7	5.9	85.3	198.4
Other receivables	–	1.8	–	0.4	2.2
Available-for-sale investments	–	2.2	–	0.9	3.1
	72.1	68.2	6.1	143.9	290.3
At 31 December 2007					
Cash and cash equivalents	20.4	10.6	0.3	53.3	84.6
Trade receivables	101.6	79.2	8.5	94.8	284.1
Other receivables	–	2.9	–	0.7	3.6
Available-for-sale investments	0.1	3.1	–	1.0	4.2
	122.1	95.8	8.8	149.8	376.5

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:

	2008		2007	
	Receivable \$m	Payable \$m	Receivable \$m	Payable \$m
US dollars	70.2	95.9	95.6	126.2
Euro	50.0	58.5	57.4	76.4
Sterling	21.2	–	40.6	–
Other	22.0	13.2	29.8	21.1
	163.4	167.6	223.4	223.7

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 2008			
Cash and cash equivalents	81.8	4.8	86.6
Available-for-sale investments	1.7	1.4	3.1
	83.5	6.2	89.7
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

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

Financial liabilities

The Group's financial liabilities are summarised below:

	2008 \$m	2007 \$m
Financial liabilities carried at amortised cost:		
Trade creditors (note 18)	201.8	239.6
Other creditors	10.3	9.7
Bank overdrafts and other borrowings (note 19)	432.6	365.5
Provisions	12.3	15.3
	657.0	630.1
Financial liabilities carried at fair value through profit or loss:		
Derivative financial instruments (note 18)	5.3	2.5
Other financial liabilities carried at fair value:		
Derivative financial instruments (note 18)	13.2	1.1
Total financial liabilities	675.5	633.7

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 2008					
Trade creditors	96.1	26.5	5.3	73.9	201.8
Other creditors	5.6	3.1	–	1.6	10.3
Provisions	–	–	12.3	–	12.3
	101.7	29.6	17.6	75.5	224.4
At 31 December 2007					
Trade creditors	119.4	37.8	8.8	73.6	239.6
Other creditors	7.6	0.6	–	1.5	9.7
Provisions	–	–	15.3	–	15.3
	127.0	38.4	24.1	75.1	264.6

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

21 Treasury policy

Financial risk management

As a result of its multi-national operations, the Group is subject to a variety of financial risks that include liquidity risk, capital risk, credit risk, currency risk, interest rate risk and market risk. The Group's treasury policy which is determined by the Board of Directors governs the management of financial risks within the Group. In accordance with the treasury policy, the Group actively monitors and manages its financial risk exposures and the Group's policy for managing these risks are described below. The Group's treasury policy permits the use of financial instruments such as derivatives, where appropriate. However, under the treasury policy speculative transactions are not permitted.

Liquidity risk

The Group is financed primarily through a banking facility subject to guarantees issued by the Company and certain of its principal subsidiaries. In the prior year the Group was financed primarily through a secured banking facility. As at 31 December 2008, the facility totalled \$625.0 million (2007 – \$477.3 million) of which \$37.0 million (2007 – \$39.9 million) expires within one year, \$37.0 million (2007 – \$295.1 million) expires between one and two years and \$551.0 million (2007 – \$142.3 million) expires between two and five years.

As at 31 December 2008, bank overdrafts and loans of \$13.3 million (2007 – \$28.8 million) are secured on property, plant and equipment and \$nil (2007 – \$10.4 million) are secured on trade receivables. \$376.2 million of bank overdrafts and loans as at 31 December 2008 are subject to guarantees issued by the Company and certain of its principal subsidiaries. In the prior year \$241.5 million of bank overdrafts and loans were secured on assets of the Group. Security comprised both fixed and floating charges.

In addition the Group has a receivables assignment facility with the Company's parent undertaking, Guinness Peat Group plc. During the year ended 31 December 2008 receivables totalling \$50.5 million (2007 – \$nil) were assigned under this agreement. At 31 December 2008 the amount of receivables assigned was \$25.7 million (2007 – \$nil).

The Group actively maintains a mixture of long term and short term debt finance through utilisation of the above facilities that is designed to ensure that the Group has sufficient funds for its operations.

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:

	2008 \$m	2007 \$m
On demand or within one year	325.9	357.8
In the second year	42.6	84.2
In the third to fifth years inclusive	283.3	180.9
After five years	9.9	10.6
	661.7	633.5

21 Treasury policy (continued)

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:

	2008		2007	
	Receivable \$m	Payable \$m	Receivable \$m	Payable \$m
On demand or within one year	103.4	116.4	181.6	180.7
In the second year	70.2	65.9	4.1	3.6
In the third to fifth years inclusive	6.7	10.7	56.0	54.5
After five years	–	–	0.5	0.5
	180.3	193.0	242.2	239.3

Capital risk management

The Group manages its capital so as to safeguard business continuity, whilst being able to take advantage of opportunities that arise and which are expected to provide profitable returns for its shareholder and benefits for other stakeholders.

The Group's capital structure comprises cash and cash equivalents, borrowings and share capital and reserves attributable to the equity shareholders of the Company.

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 which follows 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.

38 Notes to the consolidated accounts (continued)

21 Treasury policy (continued)

Net foreign currency of monetary assets/(liabilities)

At 31 December 2008	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
Functional currency					
US dollars	–	(66.9)	19.8	19.3	(27.8)
Euro	(11.6)	–	(0.1)	0.6	(11.1)
Sterling	(0.5)	(0.3)	–	–	(0.8)
Other	(40.7)	7.0	0.1	(1.1)	(34.7)
	(52.8)	(60.2)	19.8	18.8	(74.4)
At 31 December 2007	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
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)

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:

	2008 \$m	2007 \$m
Impact of Euro strengthening by 9% against the US dollar:		
Decrease in profit before taxation for the year	(5.0)	(5.7)
Increase in equity shareholders' funds	1.7	2.1
Impact of Sterling strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	1.8	1.8
Increase/(decrease) in equity shareholders' funds	3.1	(2.0)
Impact of all other currencies strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	5.4	3.4
Increase in equity shareholders' funds	25.2	26.8

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.

21 Treasury policy (continued)

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 \$270.0 million (2007 – \$205.0 million) have fixed interest payments at rates between 3.24% and 4.80% (2007 – 3.28% and 4.80%) for periods up until 6 June 2013 (2007 – 1 May 2013) and have floating rate interest receipts. \$90.0 million of these contracts mature within one year (2007 – \$55.0 million).

The fair values of interest rate swaps entered into at 31 December 2008 comprise assets of \$nil (2007 – \$0.4 million) and liabilities of \$13.2 million (2007 – \$1.1 million). 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:

	2008 \$m	2007 \$m
Decrease in profit before taxation for the year	(1.4)	(1.7)
Increase in equity shareholders' funds	4.6	1.8

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 2008 of \$3.1 million (2007 – \$4.2 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

	2008 \$m	2007 \$m
Included in current liabilities	110.3	162.2
Included in non-current liabilities	18.1	39.1
Total provisions	128.4	201.3

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 a fine against the Coats plc Group of €110.3 million. 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 fine 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 at 31 December 2008 of \$150.7 million (2007 – \$194.0 million) are convertible into ordinary shares of the Company at par at any time at the option of Coats Group Limited up to the settlement date in June 2013.

On 13 June 2008 the settlement date of the amounts owed to the parent undertaking, which are subordinated, convertible at the option of the lender and are non-interest bearing was extended from March 2011 to June 2013.

Under IAS 39 – Financial instruments: Measurement and Recognition, the extension to June 2013 represents a substantial modification and consequently the change in terms have been accounted for as an extinguishment of the original financial instrument and the recognition of a new financial instrument. The fair value of the liability component has therefore been determined as at 13 June 2008 and the difference between the original proceeds received 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.

	\$m
Carrying value of liability component of amounts owed to parent undertaking at 1 January 2007	173.2
Notional interest charge for the year	20.8
Carrying value of liability component of amounts owed to parent undertaking at 31 December 2007	194.0
Change in equity component of amounts owed to parent undertaking (subordinated and convertible) following substantial modification (see below)	12.9
Reversal of notional interest charged to the profit and loss account in prior years as a result of the substantial modification	(67.3)
Notional interest charge for the period from the date of the substantial modification to 31 December 2008	11.1
Notional interest for the year	(56.2)
Carrying value of liability component of amounts owed to parent undertaking at 31 December 2008	150.7

The carrying value of the liability component and the change in equity component at 13 June 2008 was as follows:

	\$m
Nominal value of amounts owed to parent undertaking (subordinated and convertible)	280.7
Carrying value of liability component at 13 June 2008	(139.6)
Equity component at 13 June 2008	141.1
Equity component at date of issue	154.0
Change in equity component	12.9

The notional interest charge for the period from 13 June 2008 is calculated by applying the effective interest rate at 13 June 2008 of 15% to the liability component. For the year ended 31 December 2007 the notional interest charge was calculated by applying the effective interest rate at the date of inception of 12%.

The Directors estimate the fair value of the liability component of amounts owed to the parent undertaking (subordinated and convertible) to be approximately \$162.3 million at 31 December 2008 (2007 – \$175.3 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 2007	15.4	7.8	(12.2)	10.6	(20.4)	1.2
Charge/(credit) to income	4.4	(1.8)	(0.3)	2.0	(3.4)	0.9
Charge to equity	–	1.1	–	–	–	1.1
Transfer to current tax	(0.1)	–	–	–	–	(0.1)
Exchange differences	3.9	1.9	(3.0)	2.6	(5.1)	0.3
At 31 December 2007	23.6	9.0	(15.5)	15.2	(28.9)	3.4
At 1 January 2008	23.6	9.0	(15.5)	15.2	(28.9)	3.4
Charge/(credit) to income	1.1	0.6	(1.0)	(2.6)	9.2	7.3
Credit to equity	–	(2.0)	–	–	–	(2.0)
Transfer to current tax	–	–	–	–	2.6	2.6
Exchange differences	(0.7)	(0.2)	0.4	(1.1)	0.6	(1.0)
At 31 December 2008	24.0	7.4	(16.1)	11.5	(16.5)	10.3

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:

	2008 \$m	2007 \$m
Deferred tax liabilities	23.7	17.3
Deferred tax assets	(13.4)	(13.9)
	10.3	3.4

At 31 December 2008, the Group has unused income tax losses of \$572.0 million (2007 – \$495.5 million). A deferred tax asset of \$16.1 million (2007 – \$15.5 million) has been recognised in respect of \$47.0 million (2007 – \$41.1 million) of those losses. No deferred tax has been recognised in respect of the remaining \$525.0 million (2007 – \$454.4 million) of such losses due to the unpredictability of future taxable profit streams. Included in unrecognised tax losses are losses of \$48.2 million (2007 – \$39.7 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 2008, the Group also has unrecovered advance corporation tax of \$86.8 million (2007 – \$102.1 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 2008, the Group also had unused capital tax losses of \$356.6 million (2007 – \$433.6 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 2008, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have been recognised was \$11.5 million (2007 – \$15.2 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.

42 Notes to the consolidated accounts (continued)

25 Share capital

	Number of shares	2008 \$m	Number of shares	2007 \$m
Authorised:				
Ordinary shares of £1 each	200,050,100	367.6	200,050,000	367.6
A Growth shares of £1 each	–	–	70	–
B Growth shares of £1 each	–	–	30	–
		367.6		367.6
Allotted and fully paid:				
Ordinary shares of £1 each	75,050,100	137.9	75,050,000	137.9
A Growth shares of £1 each	–	–	51	–
B Growth shares of £1 each	–	–	30	–
		137.9		137.9

During the year ended 31 December 2008, the A Growth shares and B Growth shares in issue were converted into a total of 100 Ordinary shares of £1 each.

The Growth shares represented non equity shares. The Growth shares conferred 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 conferred the right to a return of the capital paid up, but did not entitle the holders to any further or other participation in the assets of the Company. The holders of the Growth shares were not entitled to receive any income in respect of their holding. The Growth shares were 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 2007 and 31 December 2007	154.0
Change in equity component of amounts owed to parent undertaking (subordinated and convertible) – see note 23	(12.9)
Balance at 31 December 2008	141.1

27 Hedging and translation reserves

	Hedging reserve \$m	Translation reserve \$m	Total \$m
Balance at 1 January 2007	6.8	8.2	15.0
Exchange differences on translation of foreign operations	–	34.3	34.3
Increase in fair value of cash flow hedges	(3.7)	–	(3.7)
Transfer to income	(3.3)	–	(3.3)
Balance at 31 December 2007	(0.2)	42.5	42.3
Balance at 1 January 2008	(0.2)	42.5	42.3
Exchange differences on translation of foreign operations	–	(57.9)	(57.9)
Increase in fair value of cash flow hedges	(14.0)	–	(14.0)
Transfer to income	1.4	–	1.4
Balance at 31 December 2008	(12.8)	(15.4)	(28.2)

28 Retained profit/(loss)

	2008 \$m	2007 \$m
Balance at 1 January	(10.4)	(45.6)
Net profit for the year	64.3	41.0
Actuarial losses in respect of retirement benefit schemes	(35.1)	(4.7)
Tax on items taken directly to equity	2.0	(1.1)
Balance at 31 December	20.8	(10.4)

29 Reconciliation of closing equity

	2008			2007		
	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	323.8	18.4	342.2	261.3	19.5	280.8
Total recognised income and expense for the year	(39.3)	3.2	(36.1)	62.5	5.3	67.8
Dividends paid	–	(4.9)	(4.9)	–	(2.6)	(2.6)
Minority interests acquired	–	–	–	–	(3.8)	(3.8)
Change in equity component of amounts owed to parent undertaking (subordinated and convertible) – see note 23	(12.9)	–	(12.9)	–	–	–
Balance at 31 December	271.6	16.7	288.3	323.8	18.4	342.2

30 Notes to the cash flow statement

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

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Operating profit	75.2	118.8
Depreciation of property, plant and equipment	58.1	59.3
Amortisation of intangible assets (computer software)	9.0	8.2
Reorganisation costs	32.2	38.2
Impairment of property, plant and equipment	0.4	2.9
Impairment of intangible assets (computer software)	–	(1.1)
Other exceptional items	(5.0)	(0.7)
Decrease/(increase) in inventories	17.1	(22.5)
Decrease/(increase) in debtors	61.2	(14.6)
(Decrease)/increase in creditors	(36.4)	40.1
Provision movements	(55.9)	(46.2)
Other non-cash movements	2.5	8.3
Net cash inflow from normal operating activities	158.4	190.7
Net cash outflow in respect of reorganisation costs and other exceptional items	(34.3)	(44.6)
Net cash inflow generated by operations	124.1	146.1

(b) Analysis of net debt

	At 31 December 2007 \$m	Cash flow \$m	Other non-cash changes \$m	Exchange \$m	At 31 December 2008 \$m
Cash and cash equivalents	84.6				86.6
Bank overdrafts	(16.4)				(21.2)
Net cash and cash equivalents	68.2	11.5	–	(14.3)	65.4
Loans	(347.5)	(70.3)	(3.8)	10.3	(411.3)
Finance leases	(1.6)	1.5	–	–	(0.1)
Total	(280.9)	(57.3)	(3.8)	(4.0)	(346.0)

Net debt is before amounts owed to a parent undertaking of \$nil (2007 – \$55.0 million) and amounts owed to a parent undertaking (subordinated and convertible) of \$150.7 million (2007 – \$194.0 million) as set out in note 23.

(c) Acquisition of subsidiaries

During the year there was a cash outflow of \$0.1 million in respect of an acquisition made in the prior year.

(d) Disposal of subsidiaries

During the year the Group utilised provisions of \$0.4 million in respect of the disposal of non-core operations disposed of in a prior year.

The cash outflow overall in respect of discontinued businesses during the year was \$0.4 million (2007 – \$2.0 million inflow).

44 Notes to the consolidated accounts (continued)

31 Contingent liabilities

	2008 \$m	2007 \$m
Trade facility and bank guarantees	0.3	0.2

32 Operating lease arrangements

	2008 \$m	2007 \$m
The Group as lessee		
Minimum lease payments under operating leases recognised in the income statement for the year	26.5	27.1

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	21.2	27.1
In the second to fifth years inclusive	37.5	48.4
After five years	13.8	20.8
	72.5	96.3

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	1.9	5.4
In the second to fifth years inclusive	6.7	11.4
After five years	4.4	5.3
	13.0	22.1

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 2008 \$m	\$m	Year ended 31 December 2007 \$m
Defined contribution schemes		2.8		2.8
Defined benefit schemes – UK funded	3.1		3.8	
US funded	3.1		3.1	
Other funded and unfunded	6.1		5.8	
		12.3		12.7
		15.1		15.5

(b) Defined contribution schemes

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

(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.

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

(c) Defined benefit schemes (continued)

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 2008. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2006 for the UK scheme and 31 December 2008 for the US scheme.

Principal assumptions at 31 December 2008	UK %	US %	Other %
Rate of increase in salaries	3.80	4.20	2.54
Rate of increase for pensions in payment	2.80	–	1.75
Discount rate	6.50	6.20	6.14
Inflation assumption	2.80	2.80	2.62
Principal assumptions at 31 December 2007	UK %	US %	Other %
Rate of increase in salaries	4.25	4.20	2.49
Rate of increase for pensions in payment	3.25	–	1.64
Discount rate	6.10	6.35	6.00
Inflation assumption	3.25	2.50	2.62
Long term rate of return expected at 31 December 2008	UK %	US %	Other %
Equities	9.15	8.40	10.54
Corporate bonds and gilts	6.05	5.00	7.71
Other	6.33	5.00	6.78
Long term rate of return expected at 31 December 2007	UK %	US %	Other %
Equities	8.13	8.20	9.25
Corporate bonds and gilts	4.73	6.35	6.97
Other	4.51	3.70	6.54

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 2008	UK \$m	US \$m	Other \$m	Group \$m
Current service cost	(3.1)	(3.1)	(5.6)	(11.8)
Settlements and curtailments	–	–	(0.5)	(0.5)
Included in operating profit	(3.1)	(3.1)	(6.1)	(12.3)
Interest on defined benefit obligations – unwinding of discount	(142.7)	(9.0)	(7.7)	(159.4)
Expected return on pension scheme assets	161.5	14.3	3.2	179.0
Included in finance costs – net return/(charge)	18.8	5.3	(4.5)	19.6
For the year ended 31 December 2007	UK \$m	US \$m	Other \$m	Group \$m
Current service cost	(3.8)	(3.1)	(5.6)	(12.5)
Settlements and curtailments	–	–	0.2	0.2
Past service costs	–	–	(0.4)	(0.4)
Included in operating profit	(3.8)	(3.1)	(5.8)	(12.7)
Interest on defined benefit obligations – unwinding of discount	(146.0)	(8.7)	(7.8)	(162.5)
Expected return on pension scheme assets	169.3	13.2	3.1	185.6
Included in finance costs – net return/(charge)	23.3	4.5	(4.7)	23.1

The actual negative return on scheme assets was \$259.5 million (2007 – positive return of \$145.1 million) for the UK, positive return of \$14.9 million (2007 – \$20.1 million) for the US and negative return of \$6.5 million (2007 – positive return of \$7.5 million) for other.

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

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

As at 31 December 2008	UK \$m	US \$m	Other \$m	Total \$m
Equities	512.1	43.5	14.1	569.7
Corporate bonds and gilts	1,097.4	161.7	14.0	1,273.1
Other	219.5	2.1	7.4	229.0
Total market value of assets	1,829.0	207.3	35.5	2,071.8
Actuarial value of scheme liabilities	(1,745.0)	(146.5)	(141.9)	(2,033.4)
Gross net asset/(liability) in the scheme	84.0	60.8	(106.4)	38.4
Adjustment due to surplus cap	(73.8)	(28.2)	(1.2)	(103.2)
Recoverable net asset/(liability) in the scheme	10.2	32.6	(107.6)	(64.8)

This amount is presented in the balance sheet as follows:

Non-current assets	41.7
Current assets	4.4
Current liabilities	(13.8)
Non-current liabilities	(97.1)
	(64.8)

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

This amount is presented in the balance sheet as follows:

Non-current assets	63.7
Current assets	3.1
Current liabilities	(18.6)
Non-current liabilities	(103.4)
	(55.2)

The UK and US schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2008, \$105.1 million (2007 – \$119.2 million) related to wholly unfunded arrangements.

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

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	(2,898.3)	(3,048.6)
Current service cost	(11.8)	(12.5)
Past service cost	–	(0.4)
Interest on defined benefit obligations – unwinding of discount	(159.4)	(162.5)
Actuarial gains and losses	179.5	175.5
Contributions from members	(0.9)	(1.1)
Benefits paid	199.4	204.0
Settlements and curtailments	1.5	2.1
Exchange difference	656.6	(54.8)
At 31 December	(2,033.4)	(2,898.3)

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

At 1 January	3,206.4	3,168.6
Expected return on scheme assets	179.0	185.6
Actuarial gains and losses	(431.5)	(5.3)
Contributions from members	0.9	1.1
Contribution from sponsoring companies	12.3	10.9
Benefits paid	(195.0)	(200.5)
Settlements and curtailments	(2.0)	(1.9)
Transferred from investments	0.3	1.1
Exchange difference	(698.6)	46.8
At 31 December	2,071.8	3,206.4

Actuarial gains and losses were as follows:

Actuarial gains on obligations	179.5	175.5
Actuarial losses on assets	(431.5)	(5.3)
Adjustment due to surplus cap	260.1	(176.8)
Exchange difference	(43.2)	1.9
Included in the statement of recognised income and expense	(35.1)	(4.7)
Cumulative amount included in the statement of recognised income and expense	3.3	38.4

	Year ended 31 December 2008 Valuation trend		Year ended 31 December 2007 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	0.1	(0.1)	0.1	(0.1)
Effect on defined benefit obligation of other schemes	0.3	(0.3)	0.4	(0.4)

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

For the year ended 31 December 2008 these were:	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(1,745.0)	(146.5)	(141.9)
Fair value of scheme assets	1,829.0	207.3	35.5
Net asset/(liability) in respect of the scheme	84.0	60.8	(106.4)
Experience gains and losses on scheme liabilities	(27.8)	(5.7)	(1.1)
Percentage of scheme liabilities	(2)%	(4)%	(1)%
Difference between the expected and actual return on pension scheme assets	(421.0)	0.6	(9.7)
Percentage of scheme assets	(23)%	–	(27)%
For the year ended 31 December 2007 these were:	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(2,593.4)	(148.3)	(156.6)
Fair value of scheme assets	2,937.4	217.0	52.0
Net asset/(liability) in respect of the scheme	344.0	68.7	(104.6)
Experience gains and losses on scheme liabilities	(19.0)	(3.3)	0.5
Percentage of scheme liabilities	(1)%	(2)%	–
Difference between the expected and actual return on pension scheme assets	(24.2)	6.9	4.4
Percentage of scheme assets	(1)%	3%	8%
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)%

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

History of experience adjustments (continued)

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%	–

The estimated amount to be paid in respect of the Group's retirement and other post-employment benefit arrangements during the 2009 financial year is \$17.3 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 2008 \$m	Parent companies 2007 \$m	Joint ventures 2008 \$m	Joint ventures 2007 \$m	Associates 2008 \$m	Associates 2007 \$m
Sales of goods	–	–	17.2	17.2	1.4	1.8
Purchases of goods	–	–	41.6	51.6	8.9	9.2
Other income	–	–	–	0.1	0.3	0.2
Other expense	(0.3)	(0.1)	–	(0.4)	–	–
Due from related parties	3.1	–	0.1	–	0.3	0.6
Due to related parties	150.7	249.0	3.4	9.3	1.3	3.3

Amounts owed to parent undertakings include the liability component of \$150.7 million (2007 – \$194.0 million) of the compound financial instrument as disclosed in note 23. The nominal value is \$280.7 million (2007 – \$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 for each of the categories specified by IAS 24 Related Party Disclosures.

	Year ended 31 December 2008 \$m	Year ended 31 December 2007 \$m
Short term benefits	1.5	1.7
Post-employment benefits	0.1	0.4
Share-based payments	–	0.9
	1.6	3.0

During the year ended 31 December 2008 the aggregate amount paid to directors under long term incentive schemes was \$4.8 million (2007 – nil).

Highest paid Director:

Emoluments	1.3	1.5
Amounts paid under long term incentive scheme	4.8	–
Company pension contributions to defined contribution scheme	0.1	0.4
	6.2	1.9

As at 31 December 2008 no Directors were accruing retirement benefits (2007 – retirement benefits were accruing to one Director under a defined contribution pension arrangement).

The Company and the Group accounts include a charge for the year of \$0.8 million (2007 – \$6.1 million) and a liability as at 31 December 2008 of \$0.2 million (2007 – \$14.1 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 2007 and 2008.

Guinness Peat Group plc, a company incorporated in Great Britain and registered in England and Wales, was both the controlling party and the ultimate parent company of the Group throughout the years ended 31 December 2007 and 2008.

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 2008 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 2008. 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 2008;
- 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 LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
21 April 2009

52 Company balance sheet

At 31 December 2008	Notes	2008 \$m	2007 \$m
Fixed assets			
Investments in subsidiary undertakings	C	1,957.4	1,942.5
Current assets			
Debtors due within one year	D	4.9	0.1
Debtors due after more than one year	D	27.7	–
Cash at bank and in hand		0.8	13.9
		33.4	14.0
Creditors – amounts falling due within one year			
Other creditors	E	(64.0)	(58.9)
Net current liabilities		(30.6)	(44.9)
Total assets less current liabilities		1,926.8	1,897.6
Creditors – amounts falling due after more than one year			
Amounts owed to parent undertaking (subordinated and convertible)	F	(280.7)	(280.7)
Other creditors	G	(982.7)	(1,336.9)
		(1,263.4)	(1,617.6)
Provisions for liabilities and charges	34	(0.2)	(14.1)
Net assets		663.2	265.9
Capital and reserves			
Called up share capital	25	137.9	137.9
Profit and loss account	I	525.3	128.0
EQUITY SHAREHOLDERS' FUNDS	J	663.2	265.9

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 21 April 2009.

They were signed on its behalf by:

Blake Nixon, Director

21 April 2009

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 (2007 – \$nil). Their fair value comprises assets of \$nil (2007 – \$0.4 million) and liabilities of \$13.2 million (2007 – \$1.1 million).

The amounts owed to the parent undertaking, which are subordinated, convertible at the option of the lender and are non interest bearing are carried at the amount of the proceeds received.

(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 2008 \$m	Year ended 31 December 2007 \$m
The Company's profit was	397.3	229.5

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 (2007 – \$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 2008	1,727.5	215.0	1,942.5
Additions	70.5	4.1	74.6
Disposals	–	(59.7)	(59.7)
At 31 December 2008	1,798.0	159.4	1,957.4

During the year, the Company acquired additional shares in Coats Industrial Thread Holdings BV, its directly held subsidiary undertaking.

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

D Debtors

	2008 \$m	2007 \$m
Debtors due within one year:		
Amounts owed by parent undertaking	3.6	–
Amounts owed by subsidiary undertakings	1.3	0.1
	4.9	0.1
Debtors due after more than one year:		
Amounts owed by subsidiary undertakings	27.7	–

E Other creditors (amounts falling due within one year)

	2008 \$m	2007 \$m
Amounts owed to parent undertaking	–	55.0
Amounts owed to subsidiary undertakings	16.5	0.4
Bank loans	37.0	–
Bank overdrafts	7.8	–
Accruals and deferred income	2.7	3.5
	64.0	58.9

F Amounts owed to parent undertaking (subordinated and convertible)

The amounts owed to the parent undertaking of \$280.7 million (2007 – \$280.7 million) are non-interest bearing, repayable in June 2013, subordinated to the Group's principal banking facility and convertible into equity at par at the option of Coats Group Limited at any time up to June 2013.

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

	2008 \$m	2007 \$m
Bank loans	288.1	200.2
Amounts owed to subsidiary undertakings	694.6	1,136.7
	982.7	1,336.9

The bank loans falling due within one year and after more than one year are subject to guarantees issued by the Company and certain of its principal subsidiaries as part of the Group's \$625.0 million banking facility. At 31 December 2008, \$63.7 million of these banking facilities had been drawn down by the Company's subsidiaries. In the prior year the bank loans falling due after more than one year were secured on the assets of the Company and the Group, the security comprising both fixed and floating charges.

H Deferred taxation

The Company has unrecognised deferred tax assets as follows:

	2008 \$m	2007 \$m
Trading losses	8.6	8.8
Short term timing differences	–	4.0
	8.6	12.8

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

I Profit and loss account

	2008 \$m	2007 \$m
Balance at 1 January	128.0	(101.5)
Net profit for the year	397.3	229.5
Balance at 31 December	525.3	128.0

J Reconciliation of closing equity

	2008 \$m	2007 \$m
Balance at 1 January	265.9	36.4
Net profit for the year	397.3	229.5
Balance at 31 December	663.2	265.9

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.

56 Notes to the Company accounts (continued)

L Principal subsidiary undertakings

The principal subsidiary undertakings of the Company and the Group at 31 December 2008 were as follows:

		Country of incorporation or registration and principal country of operation
Holding, Finance and Property Companies		
Coats Holdings Ltd		England
Coats International plc	99.998%	England
Coats Finance Co. Limited		England
Coats Property Management Limited		England
Coats Industrial Thread Limited (formerly Tootal Thread Limited)		England
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
Thread		
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.

Thread – Joint Ventures		
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 Coats Industrial Thread Limited are held indirectly.

Coats plc

1 The Square

Stockley Park

Uxbridge

Middlesex UB11 1TD

Company no. 4620973

Tel: +44 (0)20 8210 5000

www.coats.com