

Coats plc
Annual Report 2009



Global leader in thread

	2009 \$m	2008 \$m
Revenue	1,408.3	1,645.4
Operating profit before exceptional items	95.9	102.8
Operating profit	54.3	75.2
Profit before taxation and exceptional items	78.0	82.3
Profit before taxation	13.9	110.9
Net profit before exceptional items attributable to equity shareholders	36.2	31.6
Net (loss)/profit attributable to equity shareholders	(27.0)	64.3
Net cash inflow from operations before exceptional items	198.1	158.4
Net cash inflow from operations	151.6	124.1
Net debt	258.5	346.0

- Pre-exceptional operating profit down on 2008 by only \$6.9 million, despite sales being down by \$237.1 million.
- Strong operating cash flow of \$198.1 million.
- Average net working capital/sales ratio fell from 23% in 2008 to 20% in 2009.
- Significant reduction in net debt of \$87.5 million.
- Industrial thread sales shortfalls have significantly reduced: 6% down on last year for the second half compared to 27% down for the first half.
- Crafts business returned to profitability, with a \$25.0 million pre-exceptional operating profit (2008 – \$7.1 million loss) achieved.
- Europe Crafts pre-exceptional operating losses fell by \$20.7 million.
- North America Crafts sales have shown resilience to the recession and profits for the Americas were significantly up on 2008.
- Headcount of 20,603 is down on 2008 by 1,478 or 7%.

Overview

2009 has seen the worst global recession in decades but, in the face of the downturn in global demand plus destocking in the supply chain, Coats has shown much resilience. Coats' strong operational and financial position coming into the downturn has enabled it to withstand these recessionary pressures and to react quickly.

As shown in the tables below, notwithstanding that Coats' sales in these unprecedented economic conditions of \$1,408.3 million were \$237.1 million down on 2008 levels, a pre-exceptional operating profit of \$95.9 million has been achieved, only \$6.9 million down on 2008 (\$102.8 million).

In addition, 2009 cash flow was strong and a significant reduction in net debt of \$87.5 million was achieved.

Results

Coats Industrial sales are largely driven by demand for clothing and footwear, predominantly in North America, Western Europe and Japan. During 2009 destocking in the supply chain continued to impact the apparel and footwear sectors and, as shown in the Industrial table below, sales were 17% down on 2008 levels (13% down on a like-for-like basis). Asia is a key region for Coats and sales shortfalls there were restricted to 9% on a like-for-like basis. Plants have operated at below normal utilisation, due to both lower demand and actions implemented to reduce

stock levels, and this put pressure on margins.

However, prices were broadly maintained and benefits from cost initiatives have come through during the year. A pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) of \$70.9 million (2008 – \$109.9 million) was generated by the Industrial business.

The Crafts business has returned to profitability, with a pre-exceptional operating profit of \$25.0 million (2008 – \$7.1 million loss) being achieved.

In Europe, where the consumer environment remains weak overall, Crafts sales were 20% down on 2008 levels and 10% down on a like-for-like basis. However, operating losses were reduced by \$20.7 million from \$41.6 million in 2008 to \$20.9 million in 2009. This reduction in operating losses reflects the benefits from the major restructuring of this business, which focussed on lowering the cost base, enhancing productivity and delivering a harmonised pan-European product offer. Gross margins have improved and distribution and administration costs have reduced. The Europe Crafts headcount was reduced by 21% during the year, following the 15% reduction achieved in 2008.

Profits from the Crafts businesses in the Americas and Asia increased from \$34.5 million in 2008 to \$45.9 million, reflecting a strong performance from the North American Crafts business.

Industrial

	2009 reported \$m	Actual decrease full year \$m	Actual decrease 2009 first half %	Actual decrease 2009 second half %	Actual decrease full year %
Sales					
Asia and Rest of World	459.4	(61.5)	-19%	-4%	-12%
Europe	181.0	(67.9)	-39%	-11%	-27%
Americas	248.0	(53.5)	-29%	-5%	-18%
Total sales	888.4	(182.9)	-27%	-6%	-17%
Pre-exceptional operating profit	70.9	(39.0)	-52%	-7%	-35%

Crafts

	2009 reported \$m	Actual increase/ (decrease) full year \$m	Actual increase/ (decrease) 2009 first half %	Actual increase/ (decrease) 2009 second half %	Actual increase/ (decrease) full year %
Sales					
Asia and Rest of World	64.2	(3.3)	-14%	+3%	-5%
Europe	177.9	(44.7)	-29%	-11%	-20%
Americas	277.8	(6.2)	-9%	+4%	-2%
Total sales	519.9	(54.2)	-17%	-1%	-9%
Pre-exceptional operating profit	25.0	32.1	+481%	+444%	+452%

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

The results for the Industrial and Crafts businesses as reported over the last six years (at actual exchange rates) provide the context for the current year's performance.

Net debt

Net debt reduced significantly during the year by \$87.5 million from \$346.0 million at 31 December 2008 to \$258.5 million at 31 December 2009. This is after investment in new plant and systems and reorganisation projects during the year of \$73.2 million. Average net debt for the year reduced from \$424.5 million in 2008 to \$366.2 million in 2009.

Investment and reorganisation spend

Investment was made in the year to support the business through the global downturn and to enhance its operational performance. Investment continued to be made in upgrading IT systems, including the installation of SAP in all Coats units throughout the world, which is generating supply chain and purchasing benefits. Capital invested in new plant and systems in 2009 amounted to \$26.7 million (2008 – \$53.6 million) and was focussed on productivity improvements and SAP installations in Asia.

Reorganisation spend was \$46.5 million (2008 – \$34.3 million), predominantly in respect of the major restructuring of the European Crafts business: the formerly country-based organisation, each with its

own product range, is being transformed into a more cost effective pan-European business with a single, harmonised product offer, improved supply chains, and reduced distribution and administration costs. Product ranges have been rationalised, manufacturing and distribution centres have been closed and headcount reduction projects have been implemented. This restructuring is substantially complete. Total numbers employed in the Group fell by 1,478 or 7% to 20,603 (2008 – 22,081) at the end of the year, including a 15% reduction in employees in high cost countries.

Reorganisation cash outflows were partly offset by \$14.5 million (2008 – \$14.4 million) proceeds from the sale of properties, including those which had become surplus as a result of the Group's reorganisation programme.

European Commission investigation

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. This fine is in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation. Coats is vigorously contesting the Commission's decision in an appeal which has been lodged with the European General Court (formerly known as the Court of First Instance) in Luxembourg.

	2009	2008	2007	2006	2005	2004
External sales \$m						
Industrial thread & zips	888.4	1,071.3	1,087.6	1,030.1	996.2	987.7
Crafts	519.9	574.1	593.6	585.0	640.5	590.5
Total	1,408.3	1,645.4	1,681.2	1,615.1	1,636.7	1,578.2
Sales growth						
Industrial thread & zips	-17%	-1%	+6%	+3%	+1%	+1%
Crafts	-9%	-3%	+1%	-9%	+8%	+13%
Total	-14%	-2%	+4%	-1%	+4%	+5%
Pre-exceptional operating profit/(loss) \$m						
Industrial thread & zips	70.9	109.9	132.6	103.6	68.5	49.3
Crafts	25.0	(7.1)	25.5	18.8	58.0	41.2
Total	95.9	102.8	158.1	122.4	126.5	90.5
Pre-exceptional operating margin						
Industrial thread & zips	8%	10%	12%	10%	7%	5%
Crafts	5%	-1%	4%	3%	9%	7%
Total	7%	6%	9%	8%	8%	6%

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

Board changes

Mike Smithyman, Group Chief Executive of Coats plc since October 2003, retired at the end of December 2009. The Board would like to thank Mike for his invaluable contribution in successfully leading Coats through a period of major restructuring and creating a truly global business that is performing strongly in these challenging times.

Mike has been replaced as Group Chief Executive by Paul Forman. Paul joins the Group from Low & Bonar PLC, a global manufacturer, quoted on the London Stock Exchange. Low & Bonar supplies polymer-based high performance materials to a broad range of industrial end-user markets. During his seven years as Group Chief Executive at Low & Bonar, Paul played a major role in revitalising and reorientating the group and transforming it into a leading player in the diverse and fast growing performance materials market. The Board is delighted to welcome Paul to Coats.

Prospects

Market conditions remain difficult, but there are some signs pointing to the start of a slow recovery. Prices of many commodities and materials used by Coats are increasing and consumer demand in some of Coats' markets is improving.

In respect of the Industrial business, it is expected that the worst sales declines are behind us. As shown in the Industrial table above, sales shortfalls compared to 2008 reduced in the second half of 2009, with sales in the last quarter of 2009 being flat compared to 2008 on a like-for-like basis (and up in US dollar terms). Inventory levels in the apparel supply chain are at historically low levels and therefore some restocking is expected during the first half of 2010.

The Crafts business overall has also seen reduced sales shortfalls in the second half and, as for the Industrial business, sales in the last quarter of 2009 were flat compared to 2008 on a like-for-like basis (and up in US dollar terms). The market overall is expected to be relatively stable in 2010. Profitability improvement in 2010 is expected, which is primarily dependent on Europe Crafts. Benefits are expected to continue to flow through from the restructuring initiatives taken, including reducing the cost base, and the business is well positioned to take advantage of any improvements in market conditions.

It is anticipated that major restructuring activity in future will be at a level significantly reduced from the last six years. Moving forward, the Board's intention is that under normal trading conditions capital and restructuring spend in aggregate will be no more than depreciation.

Gary Weiss

Chairman
28 April 2010

Industrial trading performance

	2009 reported \$m	2008* like-for-like \$m	2008 reported \$m	Like-for-like decrease full year %	Like-for-like decrease at the 2009 half year %	Actual decrease full year %
Sales						
Asia and Rest of World	459.4	505.7	520.9	-9%	-14%	-12%
Europe	181.0	231.9	248.9	-22%	-29%	-27%
Americas	248.0	282.1	301.5	-12%	-22%	-18%
Total sales	888.4	1,019.7	1,071.3	-13%	-20%	-17%
Pre-exceptional operating profit**	70.9	104.7	109.9	-32%	-47%	-35%

*2008 like-for-like restates 2008 figures at 2009 exchange rates.

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

In the following commentary, all comparisons with 2008 are on a like-for-like basis.

Industrial trading performance

The Asian Industrial performance reflects the downturn in the Asian apparel and footwear export sectors, due to the weak retail demand in the key destination markets of North America, Western Europe and Japan. However, encouragingly, there was sales growth in certain territories, including India, one of Coats' key businesses. Coats' long-established relationships with global suppliers and brand owners continue to support the business.

The European Industrial market has been severely impacted by the global downturn, with the customer base shrinking as businesses close. Poor retail sales and heavy destocking throughout the supply chain have also adversely impacted key markets in both Western and Eastern Europe. There has been some reduction in the rate of decline in the second half.

Sales in both North America and, to a slightly lesser extent, South America were adversely impacted by the economic downturn. Sales overall were affected by weak retail demand, compounded by increased penetration of apparel and footwear imports from Asia. In North America, additional sales from new

product lines have been generated, providing some small offset to the sales declines in the apparel and footwear sectors. In South America, sales in key non-apparel thread categories held firm.

Crafts trading performance

There has been further decline overall in the already weak European retail market for crafts products and sales were down 10% from last year on a like-for-like basis, following decreases of 14% and 16% reported in 2008 and 2007 respectively. However, notwithstanding the weak consumer environment, operating losses were significantly curtailed through the major restructuring of this business and the business is well positioned to take advantage of improvements in market conditions.

North American Crafts sales have shown resilience to the recession, as consumers look for cost-effective leisure pursuits. Sales finished ahead of 2008, led by strong handknittings sales. South America Crafts sales overall were impacted by recessionary pressures, but strong growth in handknittings continued. Overall this was an excellent performance by the region, and profits were significantly up on 2008 levels.

Crafts trading performance

	2009 reported \$m	2008* like-for-like \$m	2008 reported \$m	Like-for-like increase/ (decrease) full year %	Like-for-like increase/ (decrease) at the 2009 half year %	Actual increase/ (decrease) full year %
Sales						
Asia and Rest of World	64.2	61.2	67.5	+5%	+2%	-5%
Europe	177.9	198.2	222.6	-10%	-13%	-20%
Americas	277.8	274.7	284.0	+1%	—	-2%
Total sales	519.9	534.1	574.1	-3%	-5%	-9%
Pre-exceptional operating profit/(loss)**	25.0	(3.5)	(7.1)	+814%	+1,425%	+452%

*2008 like-for-like restates 2008 figures at 2009 exchange rates and adjusts for business disposals.

**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 \$18.4 million (2008 – \$22.0 million). Interest payable on bank and other borrowings reduced substantially from \$38.2 million in 2008 to \$28.1 million in 2009. This reflects lower average net debt (which reduced from \$424.5 million in 2008 to \$366.2 million in 2009) and a full year's benefit from the 2008 refinancing. Coats refinanced in June 2008 and currently has a main borrowing facility of \$585.0 million. The net return on pension scheme assets and liabilities decreased by \$5.2 million to \$14.4 million.

Exceptional finance costs were \$22.5 million (2008 – \$56.2 million finance income) and relate entirely to notional interest on the subordinated and convertible amounts owed to the parent company of \$173.2 million (2008 – \$150.7 million). As explained in note 23, notional interest of \$67.3 million that had been charged in previous years was reversed in 2008. This was following the extension, in June 2008, of the term of the subordinated and convertible amounts owed to the parent company 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 \$32.4 million (2008 – \$37.8 million) on pre-tax profit of \$13.9 million (2008 – \$110.9 million). Excluding prior year tax adjustments and exceptional items plus their associated tax effect, the effective tax rate was 47% (2008 – 46%). This rate reflects a weighting of profits to high tax rate countries and unrelieved losses in certain territories, principally in Europe. It is expected that the Group's overall tax rate will significantly reduce as profitability in Europe improves. The Group has significant losses available to reduce future tax payments.

Discontinued operations

The \$3.5 million (2008 – \$4.5 million) loss from discontinued operations largely relates to UK vacant property provisioning.

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 showed a recoverable surplus of \$15.0 million (2008 – \$10.2 million) and the USA scheme showed a recoverable surplus of \$31.2 million (2008 – \$32.6 million). These surpluses are predominantly included in non-current assets. Employer contribution holidays for these schemes currently 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 \$156.3 million (2008 – \$169.9 million).

The net operating cash flow before reorganisation costs was strong at \$198.1 million (2008 – \$158.4 million). Operating cash flow included the benefit of a \$48.2 million (2008 – \$41.9 million) reduction in net working capital. Investment in IT systems in recent years has facilitated a \$59.4 million (2008 – \$17.1 million) reduction in inventory.

Reorganisation spend was \$46.5 million (2008 – \$34.3 million). Spend on capital projects at \$26.7 million was lower than in the previous year (2008 – \$53.6 million), representing 0.4 times (2008 – 0.8 times) depreciation and amortisation. Including the realisation of \$14.5 million (2008 – \$14.4 million) from the sale of surplus property, reorganisation and capital spend was comfortably met out of internally generated cash flow.

Interest and tax paid reduced to \$52.3 million (2008 – \$82.4 million).

Spend on the acquisition of subsidiaries of \$2.0 million (2008 – \$0.1 million) represents the acquisition of minority interests.

The above resulted in net debt reducing significantly during the year by \$87.5 million to \$258.5 million (2008 – \$346.0 million).

Balance sheet

Equity shareholders' funds increased from \$271.6 million to \$279.1 million. The \$27.0 million net attributable loss was more than offset by gains of \$34.5 million taken directly to reserves. These largely represent exchange gains of \$32.5 million (2008 – \$57.9 million losses), which arose on the translation of operations with functional currencies other than the US dollar, reflecting the depreciation of the US dollar during the year.

Executive Director

Paul Forman (Aged 45) Joined Coats in November 2009 and was appointed a Director and Group Chief Executive on 31 December 2009. For the previous seven years, he was Group Chief Executive of Low & Bonar PLC, a global manufacturer of performance materials, quoted on the London Stock Exchange, and prior to that was a main board director of the Unipart Group of Companies Limited, where his main responsibility was managing the European Automotive Aftermarket Division. He has wide experience in global manufacturing, as well as strategy consultancy and M&A advisory services.

Non Executive Directors

Gary Weiss (Aged 56) 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 62) 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 Ltd and an executive director of Guinness Peat Group plc. He is a member of the Remuneration Committee.

Blake Nixon (Aged 49) Appointed a Director in 2003, he has wide corporate experience in the UK and overseas. 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 61) 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 chairman of 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 2009.

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 M 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 (2008 – nil).

Directors Gary Weiss, Tony Gibbs, Blake Nixon and Rex Wood-Ward all served as Directors throughout the year. Mike Smithyman retired from the Board on 31 December 2009. Paul Forman was appointed as a Director on 31 December 2009.

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 2009 was 0.61, which compared to 0.85 for Coats in 2008 and 3.2 for the OSHA rate for the whole textile industry in the USA for 2008 (latest figure available).

Environmental management During 2009 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 2009, as in 2008, we have had no reportable environmental incidents.

Our Restricted Substances List continues to be extended, including to reflect the tightening of commercial and legal limits for dangerous substances, and additional chemicals have been added in 2009. We continue to believe that it is the most comprehensive such list in the textile industry.

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

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

We actively look at using more recycled or sustainable materials in our products and during the year we have increased the proportion of recycled material used in packaging and have introduced recycled polyester and organic cotton thread ranges.

During 2010 we will continue to pursue the above goals.

Research and development As in previous years, a key 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 2009 we progressed with the development and roll out of new industrial coating technologies. This work is continuing in 2010. We also have a number of new thread developments currently underway some of which are expected to reach maturity in 2010.

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 2009 were equivalent to 85 (2008 – 78) days' purchases, based on the average daily amount invoiced by suppliers during the year.

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

UK Pension fund The Coats Pension Plan is a contributory scheme open to UK employees of the Group and provides benefits additional to those from the State Basic Pension Scheme, whilst enabling members to be contracted out of S2P (State Second Pension). In addition to the normal retirement pension there are generous benefits payable if members die in service or retire early because of ill health. Members may also receive an early retirement pension on favourable terms currently from age 50 onwards.

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

Charitable donations Payments of \$32,000 (2008 – \$14,000) 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 418 of the Companies Act 2006.

A resolution to re-appoint Deloitte LLP as the Group's auditors and to authorise the Directors to agree 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 applicable law and regulations.

As the Company is a wholly owned subsidiary of Guinness Peat Group plc, which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, 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 in accordance with IFRS as adopted by the European Union to provide consistency with Guinness Peat Group plc. The Directors have elected to prepare financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company.

In preparing the Company 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 subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

28 April 2010

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 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the statement of consolidated cash flows and the related notes 1 to 35. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

We have reported separately on the Parent Company financial statements of Coats plc for the year ended 31 December 2009.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 \$157.9 million at 2009 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 this fine is adequately covered by existing provisions.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you, if in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the above matters.

Peter O'Donoghue (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
28 April 2010

12 Consolidated income statement

		2009			2008		
	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 2009							
Continuing operations							
Revenue	4	1,408.3	–	1,408.3	1,645.4	–	1,645.4
Cost of sales		(894.3)	(49.5)	(943.8)	(1,042.8)	(28.4)	(1,071.2)
Gross profit		514.0	(49.5)	464.5	602.6	(28.4)	574.2
Distribution costs		(253.2)	–	(253.2)	(310.7)	–	(310.7)
Administrative expenses		(166.1)	–	(166.1)	(190.2)	–	(190.2)
Other operating income	4	1.2	7.9	9.1	1.1	0.8	1.9
Operating profit	5&6	95.9	(41.6)	54.3	102.8	(27.6)	75.2
Share of profits of joint ventures		0.5	–	0.5	1.5	–	1.5
Investment income	8	1.7	–	1.7	2.2	–	2.2
Finance (costs)/income	9	(20.1)	(22.5)	(42.6)	(24.2)	56.2	32.0
Profit before taxation		78.0	(64.1)	13.9	82.3	28.6	110.9
Taxation	10	(33.1)	0.7	(32.4)	(41.5)	3.7	(37.8)
Profit/(loss) from continuing operations		44.9	(63.4)	(18.5)	40.8	32.3	73.1
Discontinued operations							
Loss from discontinued operations	11	(3.5)	–	(3.5)	(4.5)	–	(4.5)
Profit/(loss) for the year		41.4	(63.4)	(22.0)	36.3	32.3	68.6
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY	28	36.2	(63.2)	(27.0)	31.6	32.7	64.3
Non-controlling interests		5.2	(0.2)	5.0	4.7	(0.4)	4.3
		41.4	(63.4)	(22.0)	36.3	32.3	68.6

For the year ended 31 December 2009	Notes	2009 \$m	2008 \$m
(Loss)/profit for the year		(22.0)	68.6
Cash flow hedges:			
Losses arising during the year		(2.6)	(14.0)
Transferred to profit or loss on cash flow hedges		6.6	1.4
Exchange differences on translation of foreign operations		32.5	(59.0)
Acquisition of part of a non-controlling interest		1.9	—
Actuarial losses in respect of retirement benefit schemes	33	(3.6)	(35.1)
Tax relating to components of other comprehensive income	24	(0.3)	2.0
Other comprehensive income and expense for the year		34.5	(104.7)
Total comprehensive income and expense for the year	29	12.5	(36.1)
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		7.5	(39.3)
Non-controlling interests		5.0	3.2
		12.5	(36.1)

14 Consolidated statement of financial position

At 31 December 2009	Notes	2009 \$m	2008 \$m
Non-current assets			
Intangible assets	12	264.7	266.7
Property, plant and equipment	13	444.7	460.9
Investments in joint ventures and associates	15	14.2	15.9
Available-for-sale investments	20	3.0	2.9
Deferred tax assets	24	14.6	13.4
Pension surpluses	33	42.9	41.7
Trade and other receivables	17	22.5	23.7
		806.6	825.2
Current assets			
Inventories	16	248.3	296.6
Trade and other receivables	17	278.9	252.6
Current income tax assets		5.9	7.0
Available-for-sale investments	20	0.2	0.2
Cash and cash equivalents	30	135.0	86.6
		668.3	643.0
Non-current assets classified as held for sale	11	1.1	1.4
Total assets		1,476.0	1,469.6
Current liabilities			
Trade and other payables	18	(331.2)	(312.4)
Current income tax liabilities		(9.9)	(9.1)
Bank overdrafts and other borrowings	19	(103.7)	(109.7)
Provisions	22	(99.4)	(110.3)
		(544.2)	(541.5)
Net current assets		124.1	101.5
Non-current liabilities			
Amounts owed to parent undertaking (subordinated and convertible)	23	(173.2)	(150.7)
Trade and other payables	18	(20.6)	(26.8)
Deferred tax liabilities	24	(28.8)	(23.7)
Borrowings	19	(289.8)	(322.9)
Retirement benefit obligations:			
Funded schemes	33	(3.0)	(4.8)
Unfunded schemes	33	(89.7)	(92.3)
Provisions	22	(32.0)	(18.1)
		(637.1)	(639.3)
Liabilities directly associated with non-current assets classified as held for sale	11	–	(0.5)
Total liabilities		(1,181.3)	(1,181.3)
Net assets		294.7	288.3
Equity			
Share capital	25	137.9	137.9
Equity reserve	26	141.1	141.1
Hedging and translation reserves	27	8.3	(28.2)
Retained (loss)/profit	28	(8.2)	20.8
EQUITY SHAREHOLDERS' FUNDS	29	279.1	271.6
Non-controlling interests	29	15.6	16.7
Total equity	29	294.7	288.3

The consolidated financial statements of the Group headed by Coats plc, registered number 04620973, were approved by the Board of Directors and authorised for issue on 28 April 2010.

They were signed on its behalf by:

Blake Nixon, Director

28 April 2010

	Share capital \$m	Equity reserve \$m	Hedging reserve \$m	Translation reserve \$m	Retained (loss)/profit \$m	Total \$m
Balance as at 1 January 2008	137.9	154.0	(0.2)	42.5	(10.4)	323.8
Profit for the year	–	–	–	–	64.3	64.3
Other comprehensive income and expense for the year	–	–	(12.6)	(57.9)	(33.1)	(103.6)
Total comprehensive income and expense for the year	–	–	(12.6)	(57.9)	31.2	(39.3)
Change in equity component of amounts owed to parent undertaking (subordinated and convertible) – see note 23	–	(12.9)	–	–	–	(12.9)
Balance as at 31 December 2008	137.9	141.1	(12.8)	(15.4)	20.8	271.6
Loss for the year	–	–	–	–	(27.0)	(27.0)
Other comprehensive income and expense for the year	–	–	4.0	32.5	(2.0)	34.5
Total comprehensive income and expense for the year	–	–	4.0	32.5	(29.0)	7.5
Balance as at 31 December 2009	137.9	141.1	(8.8)	17.1	(8.2)	279.1

16 Statement of consolidated cash flows

For the year ended 31 December 2009	Notes	2009 \$m	2008 \$m
Cash inflow/(outflow) from operating activities			
Net cash inflow generated by operations	30	151.6	124.1
Interest paid		(25.4)	(43.2)
Taxation paid		(26.9)	(39.2)
Net cash generated from operating activities		99.3	41.7
Cash inflow/(outflow) from investing activities			
Dividends received from associates and joint ventures		3.2	0.7
Acquisition of property, plant and equipment and intangible assets		(26.7)	(53.6)
Disposal of property, plant and equipment and intangible assets		14.5	14.4
Acquisition of financial investments		–	(0.2)
Disposal of financial investments		0.1	0.1
Acquisition of subsidiaries and non-controlling interests		(2.0)	(0.1)
Disposal of subsidiaries	30	0.1	(0.4)
Net cash absorbed in investing activities		(10.8)	(39.1)
Cash inflow/(outflow) from financing activities			
Dividends paid to non-controlling interests		(2.1)	(4.9)
Decrease in amounts owed to parent undertaking		–	(55.0)
(Decrease)/increase in debt and lease financing		(46.0)	68.8
Net cash (absorbed)/generated in financing activities		(48.1)	8.9
Net increase in cash and cash equivalents		40.4	11.5
Net cash and cash equivalents at beginning of the year		65.4	68.2
Foreign exchange gains/(losses) on cash and cash equivalents		6.9	(14.3)
Net cash and cash equivalents at end of the year	30	112.7	65.4
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents		40.4	11.5
Cash outflow/(inflow) from change in debt and lease financing		46.0	(68.8)
Change in net debt resulting from cash flows		86.4	(57.3)
Other		(2.9)	(3.8)
Foreign exchange		4.0	(4.0)
Decrease/(increase) in net debt		87.5	(65.1)
Net debt at start of year		(346.0)	(280.9)
Net debt at end of year	30	(258.5)	(346.0)

1 General information

Coats plc is a company incorporated in Great Britain under the Companies Act 2006. 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.

The following Standards and Interpretations were adopted during the year:

IAS 1 (Revised) – Presentation of Financial Statements. The main changes are income and expenses are presented in the consolidated income statement and consolidated statement of comprehensive income. Comprehensive income is presented in a new statement, the consolidated statement of changes in equity.

IFRS 7 (Revised) – Financial Instruments: Disclosures. The main impact is the requirement to classify financial instruments on the basis of a three-level fair value hierarchy (as set out in Note 21).

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

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

IAS 24 (Revised) – Related Party Disclosures

IAS 32 (Revised) – Financial Instruments: Presentation

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

IFRS 1 (Revised) – First Time Adoption of IFRS

IFRS 2 (Revised) – Share-based Payment

IFRS 9 – Financial Instruments

The adoption of these Standards 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 17 and 19 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 M 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.

18 Notes to the consolidated accounts (continued)

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 consolidated statement of comprehensive income.

(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.

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:

		2009	2008
Average	Sterling	0.64	0.54
	Euro	0.72	0.68
Year end	Sterling	0.62	0.68
	Euro	0.70	0.72

(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.

22 Notes to the consolidated accounts (continued)

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 using the effective interest method.

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 \$157.9 million at 2009 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 this fine is adequately covered by existing provisions.

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 2009 \$m	Year ended 31 December 2008 \$m
Sales of goods – continuing operations	1,408.3	1,645.4
Investment income (note 8)	1.7	2.2
Other income	1.2	1.1
	1,411.2	1,648.7

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

Other income (as above)	1.2	1.1
Profit on the sale of property	7.5	3.3
Profit/(loss) on disposal of business	0.4	(2.5)
	9.1	1.9

A geographical analysis of the Group's revenue of \$1,408.3 million (2008 – \$1,645.4 million) is provided on page 5.

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 2009 \$m	Year ended 31 December 2008 \$m
Cost of sales:		
Reorganisation costs and impairment of property, plant and equipment and computer software	49.0	32.6
Foreign exchange losses/(gains)	0.5	(4.2)
	49.5	28.4
Other operating income:		
Profit on the sale of property	(7.5)	(3.3)
(Profit)/loss on disposal of business	(0.4)	2.5
	(7.9)	(0.8)
Finance costs:		
Notional interest on amounts owed to parent undertaking (subordinated and convertible) – see note 23	22.5	(56.2)
Taxation on exceptional items	(0.7)	(3.7)
	63.4	(32.3)

26 Notes to the consolidated accounts (continued)

6 Operating profit

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

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
Depreciation of property, plant and equipment	52.2	58.1
Amortisation of computer software included in administrative expenses	7.1	8.7
Amortisation of computer software included in cost of sales	1.1	0.3
Negative goodwill arising on acquisitions	(0.6)	–
Research and development expenditure	0.6	0.6
Cost of inventories recognised as an expense	531.4	630.2
Net foreign exchange (gains)/losses	(1.1)	3.5
Auditors' remuneration (see note below)	3.3	3.8

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	0.3	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	2.2	2.6
Services relating to taxation:		
– Advisory	0.2	0.5
– Compliance	0.1	0.1
All other services	0.5	0.2
	3.3	3.8

7 Staff costs

The average monthly number of employees was:

	Year ended 31 December 2009 Number	Year ended 31 December 2008 Number
Continuing operations:		
Direct	12,685	14,086
Indirect	2,707	2,846
Other staff	5,832	6,453
	21,224	23,385
Comprising:		
Continuing operations:		
UK	261	300
Overseas	20,963	23,085
	21,224	23,385

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

Continuing operations:		
UK	241	296
Overseas	20,362	21,785
	20,603	22,081

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
Their aggregate remuneration comprised:		
Continuing operations:		
Wages and salaries	287.6	336.7
Social security costs	38.2	44.1
Other pension costs (note 33)	14.3	15.1
	340.1	395.9

8 Investment income

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
Interest receivable and similar income	1.4	2.0
Income from other investments	0.3	0.2
	1.7	2.2

9 Finance costs/(income)

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
Non-exceptional items		
Amounts payable to parent undertaking in respect of a receivables assignment agreement	0.7	0.3
Interest on bank loans and overdrafts	26.2	36.7
Interest on other borrowings	1.9	1.5
Net return on pension scheme assets and liabilities (note 33)	(14.4)	(19.6)
Unwinding of discounts on provisions	0.6	0.6
Interest on obligations under finance leases	–	0.2
Net losses/(gains) on derivatives held at fair value through income statement	0.6	(1.4)
Other	4.5	5.9
	20.1	24.2
Exceptional items		
Notional interest on amounts owed to parent undertaking (subordinated and convertible) – see note 23	22.5	(56.2)
	42.6	(32.0)

10 Taxation

		Year ended 31 December 2009 \$m		Year ended 31 December 2008 \$m
UK taxation based on profit for the year:	\$m		\$m	
Corporation tax at 28% (2008: 28.5%)		8.8		5.6
Double taxation relief		(8.8)		(5.6)
Total UK taxation		–		–
Overseas taxation:				
Current taxation		28.5		32.8
Deferred taxation (note 24)		7.2		1.2
		35.7		34.0
Prior year adjustments:				
Current taxation	0.3		(2.3)	
Deferred taxation (note 24)	(3.6)		6.1	
		(3.3)		3.8
		32.4		37.8

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

28 Notes to the consolidated accounts (continued)

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 2009 \$m	Year ended 31 December 2008 \$m
Profit before taxation	13.9	110.9
Tax at the UK corporation tax rate of 28% (2008: 28.5%)	3.9	31.6
Adjusted for the effects of:		
Adjustments in respect of prior years	(3.3)	3.8
Deferred tax benefit not provided	24.4	26.2
Expenses not deductible for tax purposes	10.9	12.2
Withholding tax on remittances	5.8	4.7
Utilisation of brought forward losses not previously recognised	(2.0)	(6.2)
Lower rates of tax on overseas earnings	(4.6)	(12.3)
Income not liable to taxation	(3.5)	(25.3)
Other	0.8	3.1
	32.4	37.8

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 2009 \$m	Year ended 31 December 2008 \$m
Expenses, including lease related amounts, attributable to discontinued operations	(3.7)	(4.5)
Profit on disposal of properties from discontinued operations	0.2	–
Net loss attributable to discontinued operations	(3.5)	(4.5)

Non-current assets classified as held for sale of \$1.1 million (2008 – \$1.4 million) consist of surplus properties in both the current and prior years.

At 31 December 2009 there were no liabilities directly associated with non-current assets classified as held for sale.

At 31 December 2008 liabilities directly associated with non-current assets classified as held for sale were \$0.5 million and consisted 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 of \$2.5 million was recognised in the year ended 31 December 2008 (included in continuing operations) on classification of the disposal group as held for sale.

12 Intangible assets

	Goodwill \$m	Brands \$m	Computer software \$m	Total \$m
Cost				
At 1 January 2008	237.0	7.2	71.9	316.1
Exchange difference	–	(0.6)	(4.2)	(4.8)
On acquisition of subsidiaries	–	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
At 1 January 2009	237.0	6.7	72.9	316.6
Exchange difference	–	0.3	2.1	2.4
Additions	–	–	5.9	5.9
Disposals	–	–	(1.6)	(1.6)
At 31 December 2009	237.0	7.0	79.3	323.3
Amortisation and impairment				
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
At 1 January 2009	0.1	0.5	49.3	49.9
Exchange difference	–	–	1.6	1.6
Charge for the year	–	–	8.2	8.2
Impairment	–	–	0.1	0.1
Disposals	–	–	(1.2)	(1.2)
At 31 December 2009	0.1	0.5	58.0	58.6
Net book value				
At 31 December 2009	236.9	6.5	21.3	264.7
At 31 December 2008	236.9	6.2	23.6	266.7

At 31 December 2009 the carrying amount of the Group's computer software included an amount of \$0.2 million (2008 – nil) 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 2012, applying a pre-tax weighted average cost of capital of 14% (2008 – 13%) and a terminal value including no growth.

The Group has conducted a sensitivity analysis on the recoverable amounts of goodwill and brands. An increase in the pre-tax weighted average cost of capital to 20% would result in the recoverable amounts of goodwill and brands being reduced to their carrying value.

13 Property, plant and equipment

	Land and buildings \$m	Fixtures and equipment \$m	Total \$m
Cost			
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
At 1 January 2009	230.1	890.4	1,120.5
Exchange difference	12.0	50.0	62.0
Additions	2.9	15.2	18.1
Reclassifications to non-current assets held-for-sale	(1.7)	–	(1.7)
Other reclassifications	(2.6)	2.6	–
Disposals	–	(58.4)	(58.4)
At 31 December 2009	240.7	899.8	1,140.5
Accumulated depreciation and impairment			
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
At 1 January 2009	93.1	566.5	659.6
Exchange difference	4.9	36.0	40.9
Charge for the year	6.3	45.9	52.2
Impairment	–	0.2	0.2
Other reclassifications	(4.3)	4.3	–
Disposals	–	(57.1)	(57.1)
At 31 December 2009	100.0	595.8	695.8
Net book value			
At 31 December 2009	140.7	304.0	444.7
At 31 December 2008	137.0	323.9	460.9

The carrying amount of the Group's fixtures and equipment includes an amount of \$0.1 million (2008 – \$0.1 million) in respect of assets held under finance leases.

Property, plant and equipment with a net book value of \$10.1 million (2008 – \$13.3 million) has been pledged to secure borrowings of the Group (see note 21).

As at 31 December 2009, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$2.7 million (2008 – \$2.0 million).

As at 31 December 2009, the Group had idle assets amounting to \$0.6 million (2008 – nil).

14 Subsidiaries

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

15 Investments in joint ventures and associates

	Joint ventures \$m	Associates \$m	Total \$m
Cost			
At 1 January 2008 and 31 December 2009	13.4	0.2	13.6
Share of profits/(losses) retained			
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
At 1 January 2009	2.5	(0.2)	2.3
Share of profits for the year	0.5	–	0.5
Dividends paid	(2.2)	–	(2.2)
At 31 December 2009	0.8	(0.2)	0.6
Net book value			
At 31 December 2009	14.2	–	14.2
At 31 December 2008	15.9	–	15.9

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

	2009 \$m	2008 \$m
Aggregated amounts relating to joint ventures		
Total assets	32.3	38.8
Total liabilities	(3.8)	(7.0)
Revenues	39.3	41.6
Profit after taxation	1.1	3.0
Aggregated amounts relating to associates		
Total assets	27.4	28.4
Total liabilities	(27.4)	(28.4)
Revenues	11.4	22.8

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

16 Inventories

	2009 \$m	2008 \$m
Raw materials	67.4	80.1
Work-in-progress	71.0	67.8
Finished goods	109.9	148.7
	248.3	296.6

As at 31 December 2009, inventories of \$1.1 million (2008 – nil) had been pledged to secure the borrowings of the Group (see note 21).

32 Notes to the consolidated accounts (continued)

17 Trade and other receivables

	2009 \$m	2008 \$m
Non-current assets		
Taxation recoverable	7.9	8.3
Other receivables	14.6	15.4
	22.5	23.7
Current assets		
Trade receivables	225.5	197.5
Amounts due from parent undertaking	–	3.1
Due from joint ventures and associates	1.0	0.4
Prepayments and accrued income	14.9	13.1
Derivative financial instruments	1.7	1.1
Pension surpluses	8.1	4.4
Other receivables	27.7	33.0
	278.9	252.6

The ageing of overdue trade receivables is as follows:

	2009 \$m	2008 \$m
Amounts due up to 1 month beyond trade credit period	23.1	24.6
Amounts due between 1 and 2 months beyond trade credit period	8.0	10.3
Amounts due between 2 and 3 months beyond trade credit period	3.1	4.9
Amounts due between 3 and 6 months beyond trade credit period	6.5	7.3
Amounts due more than 6 months beyond trade credit period	18.1	18.1
Gross amounts due beyond trade credit period	58.8	65.2
Provisions	(22.9)	(21.8)
Amounts due beyond trade credit period net of provisions	35.9	43.4
Trade receivables within credit period	190.4	155.0
Trade receivables	226.3	198.4
Included in non-current assets	0.8	0.9
Included in current assets	225.5	197.5
	226.3	198.4

Movements in provisions:

	2009 \$m	2008 \$m
At 1 January	21.8	27.8
Exchange difference	1.0	(0.7)
Amounts charged to the consolidated income statement	3.6	4.2
Utilised	(3.5)	(9.5)
At 31 December	22.9	21.8

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

	2009 \$m	2008 \$m
Fair value through the income statement:		
Foreign exchange contracts	1.7	1.1

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.

18 Trade and other payables

	2009 \$m	2008 \$m
Current liabilities		
Trade creditors	213.1	201.8
Amounts due to parent undertaking	0.2	–
Due to joint ventures and associates	6.3	4.7
Other taxes and social security payable	10.9	11.3
Accruals and deferred income	68.6	58.7
Derivative financial instruments	6.7	8.3
Other creditors	25.4	27.6
	331.2	312.4
Non-current liabilities		
Tax liabilities	15.1	15.9
Derivative financial instruments	5.4	10.2
Other creditors	0.1	0.7
	20.6	26.8

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

	2009 \$m	2008 \$m
Fair value through the income statement:		
Foreign exchange contracts	3.1	5.3
Cash flow hedges:		
Interest rate swaps	9.0	13.2
	12.1	18.5

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

	2009 \$m	2008 \$m
Bank overdrafts	22.3	21.2
Loans	370.9	411.3
Obligations under finance leases	0.3	0.1
	393.5	432.6

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

On demand or within one year	103.7	109.7
In the second year	60.1	40.2
In the third to fifth years inclusive	226.6	278.6
After five years	3.1	4.1
	393.5	432.6
Less: Amount due for settlement within one year (shown under current liabilities)	(103.7)	(109.7)
Amount due for settlement after more than one year	289.8	322.9

34 Notes to the consolidated accounts (continued)

19 Bank overdrafts and other borrowings (continued)

The obligations under finance leases are payable as follows:

	2009		2008	
	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	0.1	0.1	–	–
In the second to fifth years inclusive	0.2	0.2	0.1	0.1
	0.3	0.3	0.1	0.1
Less: Amount due for settlement within one year (shown under current liabilities)		(0.1)		–
Amount due for settlement after more than one year		0.2		0.1

Analysis of borrowings by currency

	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
At 31 December 2009					
Bank overdrafts	11.8	2.3	0.3	7.9	22.3
Loans	331.4	1.1	21.2	17.2	370.9
Obligations under finance leases	–	–	0.2	0.1	0.3
	343.2	3.4	21.7	25.2	393.5
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

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	Total \$m
At 31 December 2009			
Bank overdrafts	22.3	–	22.3
Loans	349.7	21.2	370.9
Obligations under finance leases	0.1	0.2	0.3
Total borrowings	372.1	21.4	393.5
Effect of interest rate swaps (note 21)	(210.0)	210.0	–
	162.1	231.4	393.5
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

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:

	2009 %	2008 %
Bank overdrafts	6.8	8.4
Loans	4.9	5.6
Obligations under finance leases	5.9	6.0

Loans of \$349.7 million (2008 – \$392.1 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 \$260.0 million (2008 – \$270.0 million) as set out in note 21.

Loans of \$21.2 million (2008 – \$19.2 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:

	2009 \$m	2008 \$m
Financial assets carried at cost (loans and receivables):		
Cash and cash equivalents	135.0	86.6
Trade receivables (note 17)	226.3	198.4
Other receivables	9.1	2.2
	370.4	287.2
Financial assets carried at fair value through profit or loss:		
Derivative financial instruments (note 17)	1.7	1.1
Other financial assets carried at fair value:		
Available-for-sale investments	3.2	3.1
Total financial assets	375.3	291.4

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 2009					
Cash and cash equivalents	20.7	7.2	0.6	106.5	135.0
Trade receivables	72.9	48.5	5.3	99.6	226.3
Other receivables	1.7	1.9	–	5.5	9.1
Available-for-sale investments	0.1	2.3	–	0.8	3.2
	95.4	59.9	5.9	212.4	373.6
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

36 Notes to the consolidated accounts (continued)

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:

	2009		2008	
	Receivable \$m	Payable \$m	Receivable \$m	Payable \$m
US dollars	89.6	111.5	70.2	95.9
Euro	50.1	73.0	50.0	58.5
Sterling	39.5	–	21.2	–
Other	21.6	17.7	22.0	13.2
	200.8	202.2	163.4	167.6

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 2009			
Cash and cash equivalents	123.8	11.2	135.0
Available-for-sale investments	1.8	1.4	3.2
	125.6	12.6	138.2
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

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

Financial liabilities

The Group's financial liabilities are summarised below:

	2009 \$m	2008 \$m
Financial liabilities carried at amortised cost:		
Trade creditors (note 18)	213.1	201.8
Other creditors	15.1	10.3
Bank overdrafts and other borrowings (note 19)	393.5	432.6
Provisions	14.9	12.3
	636.6	657.0
Financial liabilities carried at fair value through profit or loss:		
Derivative financial instruments (note 18)	3.1	5.3
Other financial liabilities carried at fair value:		
Derivative financial instruments (note 18)	9.0	13.2
Total financial liabilities	648.7	675.5

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

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 2009					
Trade creditors	102.7	29.4	2.8	78.2	213.1
Other creditors	5.7	5.4	0.3	3.7	15.1
Provisions	–	–	14.9	–	14.9
	108.4	34.8	18.0	81.9	243.1
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

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 is 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. As at 31 December 2009, the facility totalled \$585.0 million (2008 – \$625.0 million) of which \$37.0 million (2008 – \$37.0 million) expires within one year, \$37.0 million (2008 – \$37.0 million) expires between one and two years and \$511.0 million (2008 – \$551.0 million) expires between two and five years.

As at 31 December 2009, bank overdrafts and loans of \$10.1 million (2008 – \$13.3 million) are secured on property, plant and equipment and \$1.1 million (2008 – nil) are secured on inventories. \$340.7 million of bank overdrafts and loans as at 31 December 2009 (2008 – \$376.2 million) are subject to guarantees issued by the Company and certain of its principal subsidiaries.

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 2009 receivables totalling \$139.6 million (2008 – \$50.5 million) were assigned under this agreement. At 31 December 2009 the amount of receivables assigned was \$3.2 million (2008 – \$25.7 million).

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:

	2009 \$m	2008 \$m
On demand or within one year	348.1	325.9
In the second year	62.8	42.6
In the third to fifth years inclusive	234.6	283.3
After five years	8.2	9.9
	653.7	661.7

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:

	2009		2008	
	Receivable \$m	Payable \$m	Receivable \$m	Payable \$m
On demand or within one year	202.5	208.0	103.4	116.4
In the second year	–	2.9	70.2	65.9
In the third to fifth years inclusive	1.6	1.1	6.7	10.7
	204.1	212.0	180.3	193.0

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.

21 Treasury policy (continued)

Net foreign currency of monetary assets/(liabilities)

At 31 December 2009	US dollars \$m	Euro \$m	Sterling \$m	Other \$m	Total \$m
Functional currency					
US dollars	–	(83.2)	27.7	17.2	(38.3)
Euro	(4.3)	–	(0.4)	(3.8)	(8.5)
Sterling	(0.2)	(4.0)	–	(0.1)	(4.3)
Other	(31.7)	0.4	0.5	1.4	(29.4)
	(36.2)	(86.8)	27.8	14.7	(80.5)
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)

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:

	2009 \$m	2008 \$m
Impact of Euro strengthening by 9% against the US dollar:		
Decrease in profit before taxation for the year	(7.1)	(5.0)
Increase in equity shareholders' funds	3.3	1.7
Impact of Sterling strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	2.5	1.8
Increase in equity shareholders' funds	1.6	3.1
Impact of all other currencies strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	4.4	5.4
Increase in equity shareholders' funds	33.8	25.2

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

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

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 \$260.0 million (2008 – \$270.0 million) have fixed interest payments at rates between 1.87% and 4.80% (2008 – 3.24% and 4.80%) for periods up until 14 May 2014 (2008 – 6 June 2013) and have floating rate interest receipts. \$50.0 million of these contracts mature within one year (2008 – \$90.0 million).

The fair values of interest rate swaps entered into at 31 December 2009 comprise liabilities of \$9.0 million (2008 – \$13.2 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:

	2009 \$m	2008 \$m
Decrease in profit before taxation for the year	(1.2)	(1.4)
Increase in equity shareholders' funds	5.5	4.6

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 2009 of \$3.2 million (2008 – \$3.1 million) held for strategic rather than trading purposes. The Group does not actively trade these investments and is not materially exposed to price risks.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets measured at fair value

At 31 December 2009	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets at fair value through profit or loss:				
Derivative financial assets	–	1.7	–	1.7
Available-for-sale assets:				
Equity investments	–	–	1.5	1.5
Bonds	1.7	–	–	1.7
	1.7	1.7	1.5	4.9
At 31 December 2008	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets at fair value through profit or loss:				
Derivative financial assets	–	1.1	–	1.1
Available-for-sale assets:				
Equity investments	–	–	1.5	1.5
Bonds	1.6	–	–	1.6
	1.6	1.1	1.5	4.2

21 Treasury policy (continued)

Financial liabilities measured at fair value

At 31 December 2009	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities	–	3.1	–	3.1
Financial liabilities at fair value through comprehensive income:				
Derivative financial liabilities	–	9.0	–	9.0
	–	12.1	–	12.1
At 31 December 2008	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities	–	5.3	–	5.3
Financial liabilities at fair value through comprehensive income:				
Derivative financial liabilities	–	13.2	–	13.2
	–	18.5	–	18.5

22 Provisions

	2009 \$m	2008 \$m
Included in current liabilities	99.4	110.3
Included in non-current liabilities	32.0	18.1
Total provisions	131.4	128.4

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. This fine is in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation. Coats is vigorously contesting the Commission's decision in an appeal which has been lodged with the European General Court (formerly known as the Court of First Instance) in Luxembourg.

The Directors remain of the view that any anticipated eventual payment of this 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 2009 of \$173.2 million (2008 – \$150.7 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 represented a substantial modification and consequently the change in terms were 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 was therefore 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 2008	194.0
Change in equity component of amounts owed to parent undertakings (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	<u>11.1</u>
Notional interest for the year	(56.2)
Carrying value of liability component of amounts owed to parent undertaking at 31 December 2008	150.7
Notional interest for the year	22.5
Carrying value of liability component of amounts owed to parent undertaking at 31 December 2009	173.2

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 year ended 31 December 2009 and period from 13 June 2008 is calculated by applying the effective interest rate on 13 June 2008 of 15% to the liability component.

The Directors estimate the fair value of the liability component of amounts owed to the parent undertaking (subordinated and convertible) to be approximately \$184.6 million at 31 December 2009 (2008 – \$162.3 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/(assets) recognised by the Group and movements thereon:

	Accelerated tax depreciation \$m	Retirement benefit obligations \$m	Tax losses \$m	Undistributed reserves \$m	Other temporary differences \$m	Total \$m
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
At 1 January 2009	24.0	7.4	(16.1)	11.5	(16.5)	10.3
(Credit)/charge to income	(5.7)	(0.8)	11.4	1.4	(2.7)	3.6
Charge to equity	–	0.3	–	–	–	0.3
Exchange differences	0.6	0.3	(0.6)	0.3	(0.6)	–
At 31 December 2009	18.9	7.2	(5.3)	13.2	(19.8)	14.2

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:

	2009 \$m	2008 \$m
Deferred tax liabilities	28.8	23.7
Deferred tax assets	(14.6)	(13.4)
	14.2	10.3

At 31 December 2009, the Group has unused income tax losses of \$689.9 million (2008 – \$572.0 million). A deferred tax asset of \$5.3 million (2008 – \$16.1 million) has been recognised in respect of \$15.9 million (2008 – \$47.0 million) of those losses. No deferred tax has been recognised in respect of the remaining \$674.0 million (2008 – \$525.0 million) of such losses, or in respect of capital losses of \$360.7 million (2008 – \$356.6 million) due to the unpredictability of future taxable profit (revenue and capital) streams. Included in unrecognised tax losses are losses of \$72.7 million (2008 – \$48.2 million) that will expire over the next 5 years if not utilised in that period. Other losses will be carried forward for in excess of ten years or indefinitely.

At 31 December 2009, the Group also has unrecovered advance corporation tax of \$77.0 million (2008 – \$86.8 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 2009, the Group also has other unrecognised deferred tax assets arising in certain group companies where the prospects of recovery are uncertain due to the unpredictability of future taxable profits. These consist of accelerated tax depreciation of \$2.3 million (2008 – \$5.4 million) and other temporary differences of \$9.3 million (2008 – \$9.4 million).

At 31 December 2009, the aggregate amount of deferred tax liabilities recognised in respect of undistributed earnings of subsidiaries was \$13.2 million (2008 – \$11.5 million). A liability has been recognised because the Group plans to distribute these earnings back to the UK in the near future so that it is probable that the temporary differences associated with undistributed earnings of subsidiaries will reverse in the foreseeable future.

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

25 Share capital

	Number of shares	2009 \$m	Number of shares	2008 \$m
Authorised:				
Ordinary shares of £1 each	200,050,100	367.6	200,050,100	367.6
Allotted and fully paid:				
Ordinary shares of £1 each	75,050,100	137.9	75,050,100	137.9

44 Notes to the consolidated accounts (continued)

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 2008	154.0
Change in equity component of amounts owed to parent undertaking (subordinated and convertible)	(12.9)
Balance at 31 December 2008 and 31 December 2009	141.1

27 Hedging and translation reserve

	Hedging reserve \$m	Translation reserve \$m	Total \$m
Balance at 1 January 2008	(0.2)	42.5	42.3
Exchange differences on translation of foreign operations	–	(57.9)	(57.9)
Decrease 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)
Balance at 1 January 2009	(12.8)	(15.4)	(28.2)
Exchange differences on translation of foreign operations	–	32.5	32.5
Decrease in fair value of cash flow hedges	(2.6)	–	(2.6)
Transfer to income	6.6	–	6.6
Balance at 31 December 2009	(8.8)	17.1	8.3

28 Retained (loss)/profit

	2009 \$m	2008 \$m
Balance at 1 January	20.8	(10.4)
Net (loss)/profit for the year	(27.0)	64.3
Acquisition of part of a non-controlling interest	1.9	–
Actuarial losses in respect of retirement benefit schemes	(3.6)	(35.1)
Tax on items taken directly to equity	(0.3)	2.0
Balance at 31 December	(8.2)	20.8

29 Reconciliation of closing equity

	2009			2008		
	Equity holders of the Company \$m	Non-controlling interests \$m	Total equity \$m	Equity holders of the Company \$m	Non-controlling interests \$m	Total equity \$m
Balance at 1 January	271.6	16.7	288.3	323.8	18.4	342.2
Total comprehensive income and expense for the year	7.5	5.0	12.5	(39.3)	3.2	(36.1)
Dividends paid	–	(2.1)	(2.1)	–	(4.9)	(4.9)
Acquisition of part of a non-controlling interest	–	(1.9)	(1.9)	–	–	–
Investment in subsidiaries	–	(2.3)	(2.3)	–	–	–
Issue of shares to non-controlling interests	–	0.2	0.2	–	–	–
Change in equity component of amounts owed to parent undertaking (subordinated and convertible) – see note 23	–	–	–	(12.9)	–	(12.9)
Balance at 31 December	279.1	15.6	294.7	271.6	16.7	288.3

30 Notes to the cash flow statement

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

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
Operating profit	54.3	75.2
Depreciation of property, plant and equipment	52.2	58.1
Amortisation of intangible assets (computer software)	8.2	9.0
Reorganisation costs	48.7	32.2
Impairment of property, plant and equipment	0.2	0.4
Impairment of intangible assets (computer software)	0.1	–
Other exceptional items	(7.4)	(5.0)
Decrease in inventories	59.4	17.1
(Increase)/decrease in debtors	(19.6)	61.2
Increase/(decrease) in creditors	8.4	(36.4)
Provision movements	(8.7)	(55.9)
Other non-cash movements	2.3	2.5
Net cash inflow from normal operating activities	198.1	158.4
Net cash outflow in respect of reorganisation costs and other exceptional items	(46.5)	(34.3)
Net cash inflow generated by operations	151.6	124.1

(b) Analysis of net debt

	At 31 December 2008 \$m	Cash flow \$m	Other non-cash changes \$m	Exchange \$m	At 31 December 2009 \$m
Cash and cash equivalents	86.6				135.0
Bank overdrafts	(21.2)				(22.3)
Net cash and cash equivalents	65.4	40.4	–	6.9	112.7
Loans	(411.3)	46.0	(2.7)	(2.9)	(370.9)
Finance leases	(0.1)	–	(0.2)	–	(0.3)
Total	(346.0)	86.4	(2.9)	4.0	(258.5)

Net debt is before amounts owed to a parent undertaking (subordinated and convertible) of \$173.2 million (2008 – \$150.7 million) as set out in note 23.

(c) Disposal of subsidiaries

The cash inflow in respect of discontinued businesses during the year was \$0.1 million (2008 – \$0.4 million outflow) and relates to non-core operations disposed of in a prior year.

31 Contingent liabilities

	2009 \$m	2008 \$m
Trade facility and bank guarantees	–	0.3

46 Notes to the consolidated accounts (continued)

32 Operating lease arrangements

	2009 \$m	2008 \$m
The Group as lessee		
Minimum lease payments under operating leases recognised in the income statement for the year	22.7	26.5

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	18.4	21.2
In the second to fifth years inclusive	34.4	37.5
After five years	14.2	13.8
	67.0	72.5

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	2.6	1.9
In the second to fifth years inclusive	5.7	6.7
After five years	2.0	4.4
	10.3	13.0

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:

		Year ended 31 December 2009 \$m		Year ended 31 December 2008 \$m
Defined contribution schemes		2.2		2.8
Defined benefit schemes – UK funded	2.1		3.1	
US funded	2.6		3.1	
Other funded and unfunded	7.4		6.1	
		12.1		12.3
		14.3		15.1

(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 the 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 2009. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2006 for the UK scheme and 31 December 2009 for the US scheme.

Principal assumptions at 31 December 2009	UK %	US %	Other %
Rate of increase in salaries	4.6	4.2	2.8
Rate of increase for pensions in payment	3.3	–	1.9
Discount rate	6.0	5.7	6.5
Inflation assumption	3.6	2.8	2.8
Principal assumptions at 31 December 2008	UK %	US %	Other %
Rate of increase in salaries	3.8	4.2	2.5
Rate of increase for pensions in payment	2.8	–	1.8
Discount rate	6.5	6.2	6.1
Inflation assumption	2.8	2.8	2.6
Long term rate of return expected at 31 December 2009	UK %	US %	Other %
Equities	8.9	8.4	9.9
Corporate bonds and gilts	5.4	4.8	7.0
Other	7.0	–	6.3
Long term rate of return expected at 31 December 2008	UK %	US %	Other %
Equities	9.2	8.4	10.5
Corporate bonds and gilts	6.1	5.0	7.7
Other	6.3	5.0	6.8

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 2009	UK \$m	US \$m	Other \$m	Group \$m
Current service cost	(2.1)	(2.6)	(7.4)	(12.1)
Included in operating profit	(2.1)	(2.6)	(7.4)	(12.1)
Interest on defined benefit obligations – unwinding of discount	(117.4)	(8.6)	(6.2)	(132.2)
Expected return on pension scheme assets	133.7	11.2	1.7	146.6
Included in finance costs – net return/(charge)	16.3	2.6	(4.5)	14.4
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

The actual return on scheme assets was \$267.9 million (2008 – negative return of \$259.5 million) for the UK, \$32.3 million (2008 – \$14.9 million) for the US and \$5.6 million (2008 – negative return of \$6.5 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 2009	UK \$m	US \$m	Other \$m	Total \$m
Equities	703.4	64.3	20.5	788.2
Corporate bonds and gilts	1,341.8	150.2	16.3	1,508.3
Other	119.0	–	7.0	126.0
Total market value of assets	2,164.2	214.5	43.8	2,422.5
Actuarial value of scheme liabilities	(2,135.5)	(144.9)	(143.1)	(2,423.5)
Gross net asset/(liability) in the scheme	28.7	69.6	(99.3)	(1.0)
Adjustment due to surplus cap	(13.7)	(38.4)	–	(52.1)
Recoverable net asset/(liability) in the scheme	15.0	31.2	(99.3)	(53.1)

This amount is presented in the balance sheet as follows:

Non-current assets	42.9
Current assets	8.1
Current liabilities	(11.4)
Non-current liabilities	(92.7)
	(53.1)

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)

The UK and US schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2009, \$99.7 million (2008 – \$105.1 million) related to wholly unfunded arrangements.

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

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	(2,033.4)	(2,898.3)
Current service cost	(12.1)	(11.8)
Interest on defined benefit obligations – unwinding of discount	(132.2)	(159.4)
Actuarial gains and losses on obligations	(219.6)	179.5
Contributions from members	(0.8)	(0.9)
Benefits paid	169.7	199.4
Settlements and curtailments	1.9	1.5
Exchange difference	(197.0)	656.6
At 31 December	(2,423.5)	(2,033.4)

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

At 1 January	2,071.8	3,206.4
Expected return on scheme assets	146.6	179.0
Actuarial gains and losses on assets	159.1	(431.5)
Contributions from members	0.8	0.9
Contribution from sponsoring companies	10.4	12.3
Benefits paid	(164.1)	(195.0)
Settlements and curtailments	(1.9)	(2.0)
Transferred from investments	–	0.3
Exchange difference	199.8	(698.6)
At 31 December	2,422.5	2,071.8

Actuarial gains and losses were as follows:

Actuarial gains on obligations	(219.6)	179.5
Actuarial losses on assets	159.1	(431.5)
Adjustment due to surplus cap	51.1	260.1
Exchange difference	5.8	(43.2)
Included in the statement of comprehensive income	(3.6)	(35.1)

Cumulative amount included in the comprehensive income	(0.3)	3.3
--	--------------	-----

	Year ended 31 December 2009 Valuation trend		Year ended 31 December 2008 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	(0.2)	0.3	(0.3)

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

For the year ended 31 December 2009 these were:

	UK \$m	US \$m	Other \$m
Present value of defined benefit obligations	(2,135.5)	(144.9)	(143.1)
Fair value of scheme assets	2,164.2	214.5	43.8
Net asset/(liability) in respect of the scheme	28.7	69.6	(99.3)
Experience gains and losses on scheme liabilities	42.7	(2.4)	1.5
Percentage of scheme liabilities	2%	(2)%	1%
Difference between the expected and actual return on pension scheme assets	134.2	21.1	3.9
Percentage of scheme assets	6%	10%	9%

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)%

The estimated amount to be paid in respect of the Group's retirement and other post-employment benefit arrangements during the 2010 financial year is \$14.7 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 2009 \$m	Parent companies 2008 \$m	Joint ventures 2009 \$m	Joint ventures 2008 \$m	Associates 2009 \$m	Associates 2008 \$m
Sales of goods	–	–	9.6	17.2	1.7	1.4
Purchases of goods	–	–	39.3	41.6	–	8.9
Other income	–	–	–	–	0.1	0.3
Other expense	(0.7)	(0.3)	–	–	–	–
Due from related parties	–	3.1	–	0.1	1.0	0.3
Due to related parties	173.4	150.7	6.3	3.4	–	1.3

Amounts owed to parent undertakings include the liability component of \$173.2 million (2008 – \$150.7 million) of the compound financial instrument as disclosed in note 23. The nominal value is \$280.7 million (2008 – \$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.

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 2009 \$m	Year ended 31 December 2008 \$m
Short term benefits	1.9	1.5
Post-employment benefits	–	0.1
	1.9	1.6

During the year ended 31 December 2009 the aggregate amount paid to Directors under long-term incentive schemes was nil (2008 – \$4.8 million).

Highest paid Director:

Emoluments	1.8	1.3
Amounts paid under long-term incentive scheme	–	4.8
Company pension contributions to defined contribution scheme	–	0.1
	1.8	6.2

As at 31 December 2009 one Director was accruing retirement benefits under a defined contribution pension arrangement (2008 – nil).

The Company and the Group accounts include a charge for the year of nil (2008 – \$0.8 million) and a liability as at 31 December 2009 of \$0.1 million (2008 – \$0.2 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 2008 and 2009.

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 2008 and 2009.

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 2009 which comprise the Company statement of financial position and the related notes A to M. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

We have reported separately on the Group financial statements of Coats plc for the year ended 31 December 2009. 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 Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the above matters.

Peter O'Donoghue (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
28 April 2010

At 31 December 2009	Notes	2009 \$m	2008 \$m
Fixed assets			
Investments in subsidiary undertakings	C	1,980.7	1,957.4
Current assets			
Debtors due within one year	D	0.3	4.9
Debtors due after more than one year	D	–	27.7
Cash at bank and in hand		–	0.8
		0.3	33.4
Creditors – amounts falling due within one year			
Other creditors	E	(39.6)	(64.0)
Net current liabilities		(39.3)	(30.6)
Total assets less current liabilities		1,941.4	1,926.8
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	(1,064.2)	(982.7)
		(1,344.9)	(1,263.4)
Provisions for liabilities and charges	34	(0.1)	(0.2)
Net assets		596.4	663.2
Capital and reserves			
Called up share capital	25	137.9	137.9
Profit and loss account	I	458.5	525.3
EQUITY SHAREHOLDERS' FUNDS	J	596.4	663.2

The financial statements of Coats plc (the Company), registered number 04620973, on pages 53 to 57 were approved by the Board of Directors and authorised for issue on 28 April 2010.

They were signed on its behalf by:

Blake Nixon, Director

28 April 2010

A Principal accounting policies

(a) Basis of accounting

Although the Group's consolidated financial statements have been prepared in accordance with IFRS, the Coats plc Company financial statements presented in this section have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and on the basis of historical cost.

As permitted by FRS 1 Cash flow statements, no cash flow statement for the Company has been included.

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 (2008 – nil). Their fair value comprises liabilities of \$9.0 million (2008 – \$13.2 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.

B Company's (loss)/profit

	Year ended 31 December 2009 \$m	Year ended 31 December 2008 \$m
The Company's (loss)/profit was	(66.8)	397.3

Under the provisions of Section 408 Companies Act 2006 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 \$0.3 million (2008 – \$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 2009	1,798.0	159.4	1,957.4
Additions	–	38.7	38.7
Disposals	–	(15.4)	(15.4)
At 31 December 2009	1,798.0	182.7	1,980.7

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

D Debtors

	2009 \$m	2008 \$m
Debtors due within one year:		
Amounts owed by parent undertaking	–	3.6
Amounts owed by subsidiary undertakings	0.3	1.3
	0.3	4.9
Debtors due after more than one year:		
Amounts owed by subsidiary undertakings	–	27.7

E Other creditors (amounts falling due within one year)

	2009 \$m	2008 \$m
Amounts owed to subsidiary undertakings	0.7	16.5
Bank loans	37.0	37.0
Bank overdrafts	0.2	7.8
Accruals and deferred income	1.7	2.7
	39.6	64.0

F Amounts owed to parent undertaking (subordinated and convertible)

The amounts owed to the parent undertaking of \$280.7 million (2008 – \$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.

56 Notes to the Company accounts (continued)

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

	2009 \$m	2008 \$m
Bank loans	259.9	288.1
Amounts owed to subsidiary undertakings	804.3	694.6
	1,064.2	982.7

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 \$585.0 million (2008 – \$625.0 million) banking facility. At 31 December 2009, \$56.6 million (2008 – \$63.7 million) of these banking facilities had been drawn down by the Company's subsidiaries.

H Deferred taxation

The Company has unrecognised deferred tax assets as follows:

	2009 \$m	2008 \$m
Trading losses	18.0	8.6

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

I Profit and loss account

	2009 \$m	2008 \$m
Balance at 1 January	525.3	128.0
Net (loss)/profit for the year	(66.8)	397.3
Balance at 31 December	458.5	525.3

J Reconciliation of closing equity

	2009 \$m	2008 \$m
Balance at 1 January	663.2	265.9
Net (loss)/profit for the year	(66.8)	397.3
Balance at 31 December	596.4	663.2

K Contingent liabilities

	2009 \$m	2008 \$m
Loan and overdraft guarantees in respect of certain subsidiaries	1.8	–
Others including overseas documentary credits and trade facility guarantees	4.0	–
	5.8	–

L 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.

M Principal subsidiary undertakings

The principal subsidiary undertakings of the Company and the Group at 31 December 2009 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		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
Shanghai Coats Limited		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 Crafts Hungary Limited		Hungary
Coats Hungary Limited		Hungary
Madura Coats Private Limited		India
PT Coats Rejo Indonesia		Indonesia
Coats Cucirini SRL		Italy
Coats Thread (Malaysia) Sdn Bhd	99.6%	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	91.1%	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