Global. Expert. Pioneering.

Every hour, every day,
around the world.

Coats plc

Annual Report 2011

Global. Expert. Pioneering.
Every hour, every day, around the world.

Coats is a global business with a rich heritage that dates back over 250 years. We are 'at home' in over 70 countries and were one of the world's first truly multinational organisations.

Every hour, every day, around the world our team of passionate people are striving to understand customer and consumer needs and develop products and services to improve their businesses and lives.

From Charlotte to Colombo our expertise helps us to inspire and innovate, developing market-leading ideas that are driving our business forward.

2011 financial summary

Established in 1755, Coats is the world market leader in industrial yarns and threads and textile consumer crafts.

$1,701.6m
Revenue (2010 – $1,583.6m)

$143.6m
Pre-exceptional operating profit*
(2010 – $132.3m)

$131.6m
Operating profit (2010 – $118.0m)

$124.2m
Profit before taxation**
(2010 – $107.4m)

$71.2m
Net profit attributable to equity shareholders** (2010 – $59.9m)

$150.3m
Net cash inflow from normal operating activities
(2010 – $117.8m)

$295.3m
Average net debt
(2010 – $300.5m)

- Total revenue up 7%. Sales of $1,701.6 million represent Coats' best sales performance under GPG ownership. Sales in all three regions of both Divisions grew year-on-year.
- Pre-exceptional operating profit increased by 9%; this was achieved notwithstanding cost inflation of approximately $100 million.
- Profit before taxation increased by 16%.
- Attributable profit increased by 19% to $71.2 million (2010 – $59.9 million). This is Coats' best full year attributable profit performance under GPG ownership.
- Industrial Division pre-exceptional operating profit increased by 6% to $118.3 million (2010 – $112.0 million).
- Improved performance from the Crafts Division: sales increased by 6% to $559.3 million (2010 – $528.6 million), the highest growth rate seen since 2005, and pre-exceptional operating profit increased by 25% to $25.3 million (2010 – $20.3 million).
- Reorganisation costs reduced to $14.6 million (2010 – $19.8 million).
- Net cash inflow from normal operating activities increased by $32.5 million to $150.3 million (2010 – $117.8 million), reflecting a $42.6 million lower net working capital outflow.
- Average net debt reduced to $295.3 million (2010 – $300.5 million).
- Coats successfully completed the refinancing of its core committed bank facility in 2011 by signing a five year agreement with its key relationship banks.

* Pre reorganisation, impairment and other exceptional items (see note 5 to the accounts)
** Pre notional interest (see note 5 to the accounts)

Global

Global

Coats is a truly global organisation with unrivalled access to markets and customers. We have over 70 manufacturing facilities across six continents, supported by an integrated global supply chain and our specialised IT and colour management systems. Our products are sold in over 100 countries, with a leading market presence in high growth markets such as India, China, Brazil and Vietnam.

1

Unrivalled colour accuracy, from anywhere in the world

Colour is an exact science and getting the right match first time around can save time and money. From our years of experience we know there are key principles that need to be understood when matching thread to fabric or material.

Our proprietary colour management system, CF2000E, electronically captures these principles and enables our dye houses and laboratories throughout the world to deliver accurate and consistent colour wherever and whenever it is required.

❷

A motivated, global team

Coats employs over 22,000 people throughout the world, and we value our workforce highly and recognise them as a key strength. Our diverse culture and rich heritage has defined a way of working that we're proud of.

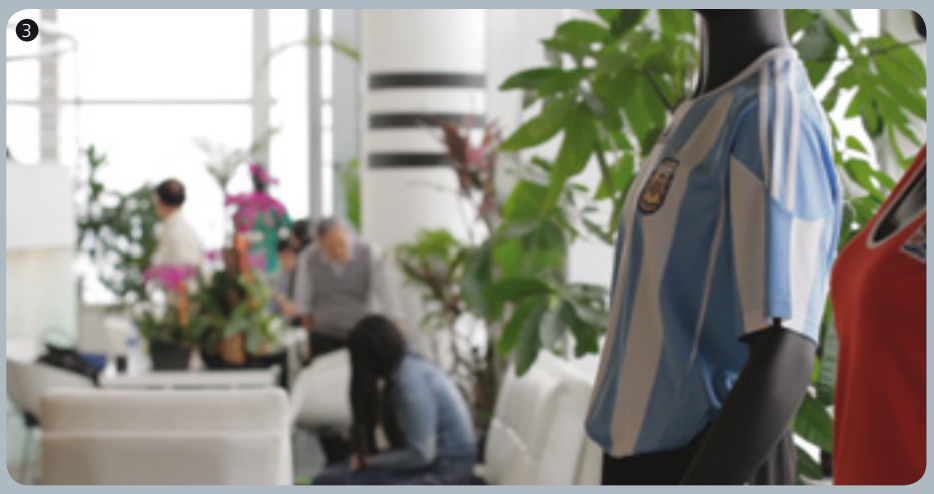
Working at Coats means being a part of a highly motivated team in a company that believes in building long-standing relationships with its customers. We take our environmental and safety responsibilities extremely seriously and work hard to have a positive impact on the local communities where we operate.

❸

Managing brand relationships globally

With our unique global footprint, Coats is one of very few organisations in the world that has relationships with virtually every major brand and contractor producing apparel, footwear and accessories. This global reach and scale means we can work with brands to help them make better products.

We work closely with a brand's design or R&D team, typically located in markets such as Japan, the United States and Europe, on product development and then see this through to assisting on any sourcing or technical issues in the manufacturing markets of Asia and the Far East. Our ability to bridge both areas of operation provides an integrated service offer others cannot match.



Expert

1

Providing seam solutions to the world's leading brands

Based in Shenzhen, China, the Coats Global Training Centre provides the world's leading sewn product brands with expert training and technical services in the field of sewing and sewn product construction.

The centre offers customers access to industry experts and resources to resolve issues in challenging areas in their factories and to offer recommendations and training on thread types and consumption, seam and stitch types, sewing problem resolution and sewing machine adjustment.

Over the past twelve months the centre has provided bespoke training programmes and resources such as 'stitch encyclopaedias', for teams from the world's leading apparel brands including Adidas and Marks & Spencer, their suppliers and leading trading houses such as Li & Fung.

3

2

Helping Timberland bring an innovative new shoe to market

Coats is already a leading supplier of thread to Timberland for its footwear products. Recently this relationship has branched into zips, where our expertise and product offer enabled them to develop and bring to market an innovative outdoor shoe.

The 'Radler Camp' – designed for campers and hikers – has a groundbreaking design, which allows the shoe to be folded in half, zipped up into a compact package and clipped onto a bag or backpack. This cutting-edge product was made possible by Coats Opti's unique woven spiral zip.

Expert

Our people are experts in their fields and in possession of unrivalled industry knowledge developed over centuries. This results in a deep understanding of the needs of our customers, brand partners and consumers and enables us to continually deliver value added products and services that enhance productivity and widen product offerings.

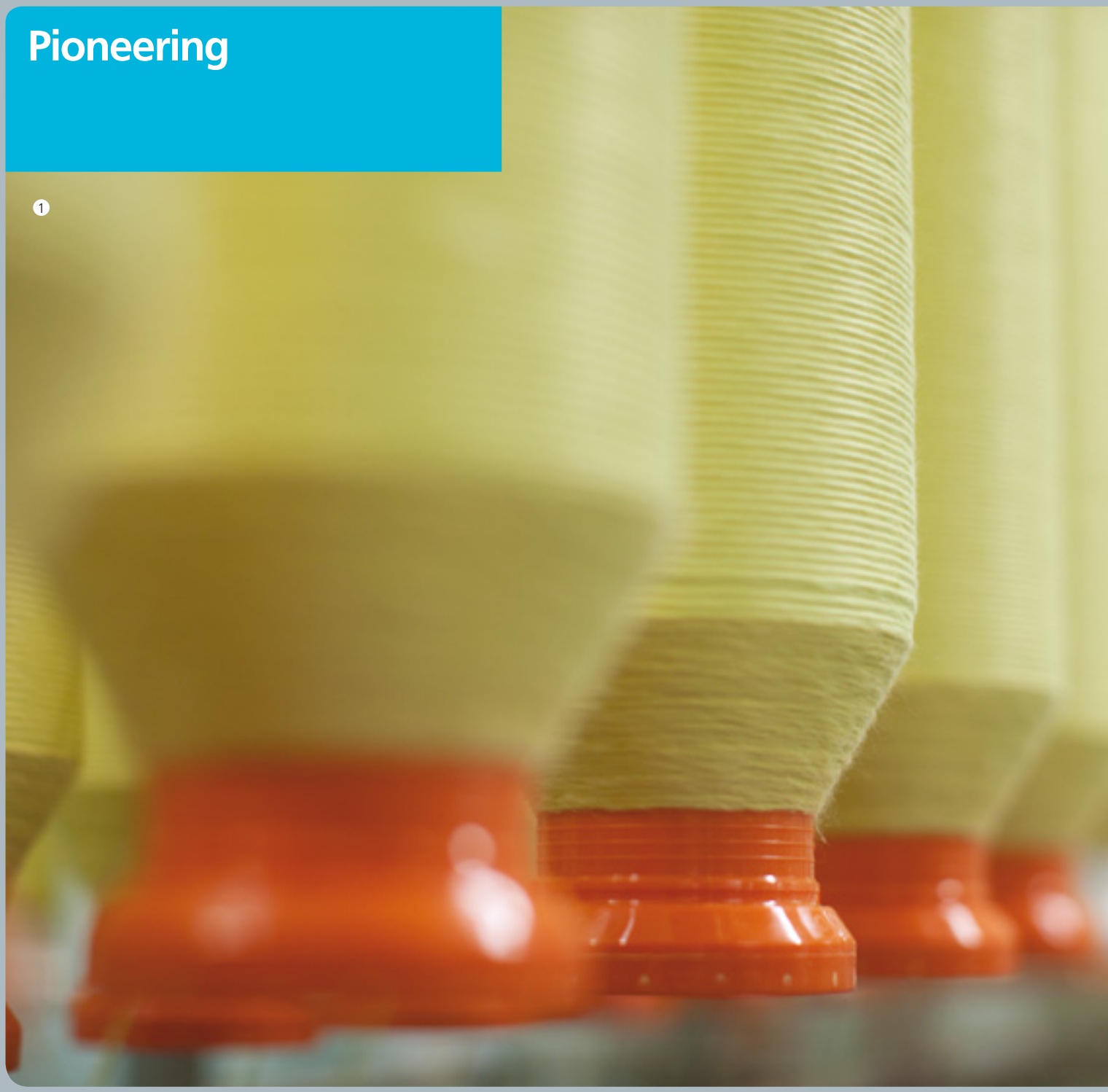
❸

Experts in handknitting and textile design

Handknitting has a rich fashion history and for over 30 years Rowan has been at its forefront. This inspirational and aspirational brand has grown in stature and success through its creative approach to knit and yarn design.

Using the talents of many of the world's renowned handknit designers and textile artists such as Kaffe Fassett, Kim Hargreaves and Amy Butler, Rowan showcases its unique pattern collections each season through brochures and the iconic Rowan magazine which recently celebrated the publication of its 50th edition and online at **www.knitrowan.com.**

Pioneering



Pioneering

Coats has always been a pioneering organisation. There are many examples of this in our long heritage – for instance when, as far back as 1784, we pioneered linen thread production and during the 1830s sought out new opportunities in India and America. Today we are still leading the way, whether in the field of colour perception, or applying innovative techniques in product areas such as flame retardant clothing or fibre optics.

❶
Seeking out new markets for engineered yarns

Over the past twelve months the team at our Centre of Excellence in North America has developed a range of specially coated engineered yarns which can swell to many times their size and absorb more than twice the amount of water of existing products on the market.

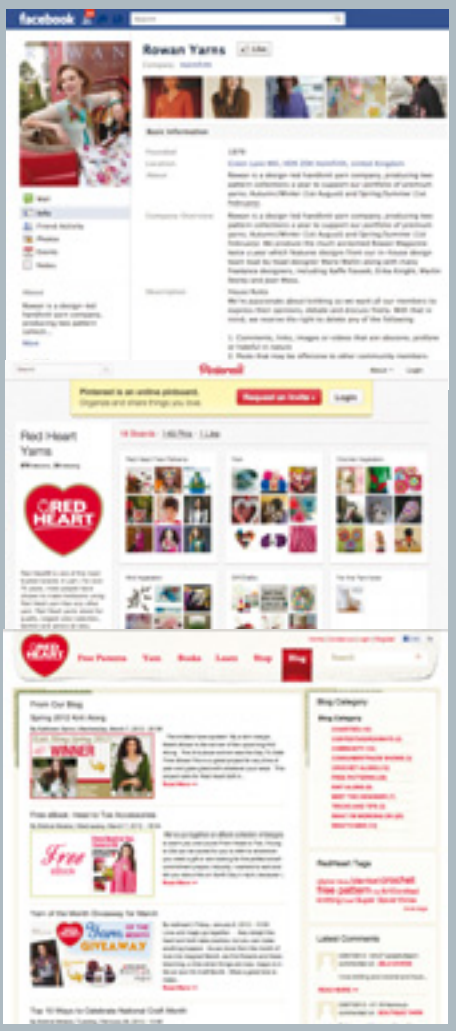
These innovative yarns are finding a market in the field of fibre optic cables, where the quality of the data transmitted along each delicate glass fibre cable is often determined by the protection it receives from elements such as water.

We are working with telecom and cable installation companies around the world to explore new ways these yarns can be used to enhance their efficiency and productivity.

❷
A pioneering thread for the apparel industry

Buttons that fall off, hems that come undone and bulky uncomfortable seams can all damage a garment's quality and brand reputation. These issues could soon become a thing of the past thanks to 'Coats Fusion', a pioneering thread that securely attaches seams, buttons and embellishments with no visible stitching.

The magic behind this is a special, patented device called the 'Coats Fusion Capsule'. This contains a fusible yarn and sits underneath a standard Coats thread. As the thread and yarn are drawn into the machine, the standard thread is twisted around the low melt yarn. This results in consistent adhesion of seams after the application of heat.



❸
Creating online communities

At Coats we are embracing the new opportunities that social media offers to put customers at the heart of everything we do. One way we can do this is through online communities that are based around the sharing of inspirational craft ideas.

Successes to date include Red Heart which has almost 250,000 registered subscribers to its blog all sharing knitting patterns and experiences on a regular basis. It is also exploring emerging platforms such as Pinterest. Meanwhile, Knit Rowan has a growing Facebook community of over 7,000, all indulging in their passion for creating luxury handknit items.

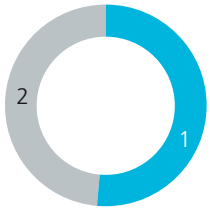
These rich conversations and insights are helping our brands and companies to better understand customer demands for new fashions and products.

At a glance

We have 73 manufacturing facilities supplying both industrial and crafts customers across six continents.

Americas

2011 total revenue	$m
1. Industrial	321.1
2. Crafts	303.0
Total	**624.1**



Key markets

- Brazil
- Canada
- Central America
- Colombia
- Mexico
- USA

100+

Our products are sold in over 100 countries

22,000+

Coats has over 22,000 employees in more than 70 countries globally

No. 1

Coats is the world's largest manufacturer of sewing thread with over 20% of market share

No. 2

Coats is the 2nd largest supplier of zips to global brands

1 in 5

garments in the world are held together using our thread

3x

Coats is three times the size of our nearest competitor in industrial thread

No. 1

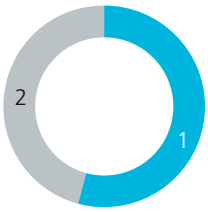
Coats is the largest global player in the textile crafts market

300m

pairs of shoes are made every year using our thread

Europe, Middle East and Africa

2011 total revenue	$m
1. Industrial	273.6
2. Crafts	170.8
Total	**444.4**

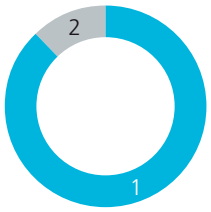


Key markets

- Egypt
- Germany
- Italy
- Tunisia
- Turkey
- United Kingdom

Asia and Australasia

2011 total revenue	$m
1. Industrial	547.6
2. Crafts	85.5
Total	**633.1**



Key markets

- Bangladesh
- China
- India
- Indonesia
- Sri Lanka
- Vietnam

Manufacturing sites

Countries in which Coats operates

Chairman's statement

Coats had a satisfactory year in 2011 despite challenging conditions, with revenue growth of 7% and pre-exceptional operating profit growth of 9%.

"Our continued success is a consequence of the skills and efforts shown by our employees across the Group."

Gary Weiss, Chairman

Revenue

$1,701.6m

+7%

2010: $1,583.6m

Pre-exceptional operating profit

$143.6m

+9%

2010: $132.3m

Operating profit

$131.6m

+12%

2010: $118.0m

I am pleased to report that Coats had a satisfactory year in 2011 despite challenging conditions, with revenue growth of 7% and pre-exceptional operating profit growth of 9%.

2011 results

A combination of factors contributed to marked differences between the two halves. We had a strong first half recording our best first half pre-exceptional operating profit performance under the ownership of Guinness Peat Group plc (GPG). However, this was followed by significant headwinds in the second half due to the impact of unprecedented increases in the cost of materials and a drop in market confidence driven by macro economic factors such as the financial crisis in the Eurozone.

Our Industrial Division's performance improved with sales increasing by 8% to $1,142.3 million, while our Crafts Division achieved the highest growth rate seen since 2005 with sales increasing by 6% to $559.3 million. For a more detailed review of Group and Divisional performance, please see the Business review and Operating review on pages 12 to 19.

Outlook

We remain cautious about the prospects for underlying demand. While economic growth is expected in emerging markets, we recognise that the overall state of the global economy is likely to remain fragile and uncertain during 2012.

However, as a Group we remain focused on our strategy for growth and have continued to make investments in operations and resources to achieve this.

Corporate Responsibility (CR)

Operating in over 70 countries, we recognise that this diversity and complexity of operations brings its own set of challenges. Some of these relate to environmental or social issues in a particular country or location; others apply globally. Either way, we recognise the importance of understanding what our impact on society is and ensuring that we manage our business to the highest ethical and operational standards.

During 2011 we undertook a detailed review of all aspects of our social and environmental initiatives to identify the most important CR issues for Coats and put in place a framework for managing and reporting against these. This is an important development for Coats and I would encourage you to read about our approach to CR on pages 20 to 23, or look online at www.coats.com.

Governance

As a wholly-owned subsidiary of GPG, Coats is committed to maintaining high standards of corporate governance. During the year we made changes to the Board composition and committee structure to ensure we continue to meet the requirements of the UK Combined Code to the extent appropriate for our circumstances as a wholly-owned subsidiary.

We appointed three independent Non-Executive Directors to the Board of Directors and I would like to take this opportunity to welcome Simon Heale, Alan Rosling and Isabella Loh. All bring with them a wealth of industry experience and will make contributions to the ongoing development of the Group in the years ahead. Full details of Board composition and committee structure can be found in the Governance section on pages 24 to 33.

I would also like to take this opportunity to express our gratitude to Roger Bevan who will leave the Group at the end of March. Roger has been CFO for the past eight years and has made a significant contribution over 20 years with Coats. He leaves with our gratitude and best wishes. His replacement is Richard Howes, who has joined us from Topaz Energy & Marine, an oilfield services company headquartered in Dubai, and I would like to welcome Richard to Coats.

After a period of eight years as Chairman I will also be stepping down with effect from 30 April 2012 to be replaced by Mike Allen. In that time Coats went through a period of major restructuring that created a truly global business which performed strongly in challenging times and now is going from strength to strength under the leadership of Paul Forman as he pursues a strategy of profitable sales growth. I would like to thank my colleagues for their support during this time and to wish them continued success in the future.

Coats people

Our continued success is a consequence of the skills and efforts shown by our employees across the Group. I would like to thank them for their commitment and expertise and firmly believe that the blend of long-standing experience, allied with specific skills from new appointments, will be a key enabling factor in our future success.

Gary Weiss
Chairman
30 March 2012

Our vision, goals and principles

Our vision

At Coats we have a clearly defined vision:

"We will be the world leader in value added engineered yarns and threads for industrial and consumer use.

We will develop and supply highly complementary products and services, where they add significant value to customers.

We will achieve success through customer-focused innovation and winning propositions driven by motivated people and global teamwork."

Our goals

We are focused on three goals which are helping us to achieve our vision:

- Profitable sales growth
- Increased productivity
- Positive teamwork

Our principles

The way we work at Coats to achieve our vision is guided by five principles:

- Freedom to operate
- Delivery (keep our promises)
- Openness and honesty
- Customer led innovation
- Energy for change

Business review

In the context of some downturn in global demand, Coats has had a satisfactory year overall.

"We have achieved the best full year performance under GPG ownership."

Paul Forman,
Group Chief Executive

Overview

In the context of some downturn in global demand, Coats has had a satisfactory year overall, with 7% growth in revenue and a 9% increase in pre-exceptional operating profit. Attributable profit* for the year increased by 19% to $71.2 million (2010 – $59.9 million) – the best full year performance under GPG ownership. The fact that sales in all regions grew in the second half, despite the difficult economic conditions, and the full year operating profit margin was maintained, notwithstanding total cost inflation of approximately $100 million, reflects the fundamental strength of the Coats business model.

However, there was variation during 2011, as shown in the tables below. The first half saw significant sales growth, reflecting both volume improvements and the early implementation of selling price increases in the Industrial Division to help offset unprecedented raw material price increases. Demand in the second half was impacted by uncertain economic conditions, particularly in Europe, and associated destocking by clothing and footwear retailers. Raw material market prices eased in the second half, but there was pressure on selling prices and margins as inventories reflecting prior higher raw material prices were sold.

Results

Industrial sales, which are largely driven by demand for clothing and footwear in developed economies, grew by 8% for the year overall to $1,142.3 million (2010 – $1,055.0 million), underpinned by the implementation of selling price increases to offset unprecedented raw material cost increases (in the order of 20% up on 2010), plus also some market share gains in our key product categories. Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) for the Industrial Division increased by 6% to $118.3 million (2010 – $112.0 million), notwithstanding that this Division has taken the brunt of significant raw material and payroll inflationary pressures.

The performance of the Crafts Division overall has been positive. Crafts sales increased by 6% to $559.3 million (2010 – $528.6 million), the highest growth rate seen since 2005. Pre-exceptional operating profit increased by 25% to $25.3 million (2010 – $20.3 million), despite the rapid and unprecedented raw

Industrial

	2011 reported $m	Actual increase full year $m	Actual increase full year %	Actual increase 2011 first half %	Actual increase/ (decrease) 2011 second half %
Sales					
Asia and Rest of World	547.6	44.3	+9%	+16%	+3%
Americas	321.1	20.3	+7%	+14%	–
EMEA	273.6	22.7	+9%	+14%	+3%
Total sales	**1,142.3**	**87.3**	**+8%**	**+15%**	**+2%**
Pre-exceptional operating profit**	**118.3**	**6.3**	**+6%**	**+19%**	**-9%**

Crafts

	2011 reported $m	Actual increase full year $m	Actual increase full year %	Actual increase 2011 first half %	Actual increase/ (decrease) 2011 second half %
Sales					
Asia and Rest of World	85.5	8.5	+11%	+22%	+3%
Americas	303.0	18.9	+7%	+12%	+2%
EMEA	170.8	3.3	+2%	+2%	+1%
Total sales	**559.3**	**30.7**	**+6%**	**+10%**	**+2%**
Pre-exceptional operating profit**	**25.3**	**5.0**	**+25%**	**+62%**	**-5%**

* Pre notional interest (see note 5 to the accounts)

** Pre reorganisation, impairment and other exceptional items (see note 5 to the accounts)

material cost increases for cotton, wool and acrylics. Price increases have trailed due to the inherent delay before changes can be made in the retail market. Nevertheless, the operating profit margin increased to 4.5% (2010 – 3.8%). Ongoing headcount reductions in Europe helped to reduce full year operating losses of EMEA Crafts by $3.1 million, although work will continue to address the under performance of this business.

Further details on Industrial and Crafts performance on a like-for-like basis (at consistent foreign exchange rates) are included in the Operating review. (All other figures included in this document are at actual exchange rates, unless otherwise stated).

The results for the Industrial and Crafts businesses as reported (at actual exchange rates) over the last eight years of GPG's ownership of Coats provide the context for the current year's performance (see table below).

Net debt

Year end net debt reduced slightly to $238.4 million (2010 – $241.9 million). This is after investment during the year in new plant and systems and reorganisation projects of $64.2 million (2010 – $60.1 million). Average net debt for the year also reduced slightly from $300.5 million in 2010 to $295.3 million in 2011, impacted by $75.0 million higher average inventory across the year, reflecting higher sales and significant raw material cost inflation of approximately $40 million. The uplift in average inventory reduced from $89.0 million in the first half to $60.9 million in the second half.

In October 2011, Coats successfully completed the refinancing of its core committed bank facility by signing a five year agreement with its key relationship banks.

Investment

Investment continued to be made to support the growth of the business and to improve its operational performance.

External sales ($m)	2011	2010	2009	2008	2007	2006	2005	2004
Industrial thread and zips	1,142.3	1,055.0	888.4	1,071.3	1,087.6	1,030.1	996.2	987.7
Crafts	559.3	528.6	519.9	574.1	593.6	585.0	640.5	590.5
Total	**1,701.6**	**1,583.6**	**1,408.3**	**1,645.4**	**1,681.2**	**1,615.1**	**1,636.7**	**1,578.2**
Sales growth (%)								
Industrial thread and zips	+8%	+19%	-17%	-1%	+6%	+3%	+1%	+1%
Crafts	+6%	+2%	-9%	-3%	+1%	-9%	+8%	+13%
Total	**+7%**	**+12%**	**-14%**	**-2%**	**+4%**	**-1%**	**+4%**	**+5%**
Pre-exceptional operating profit/(loss) ($m)								
Industrial thread and zips	118.3	112.0	70.9	109.9	132.6	103.6	68.5	49.3
Crafts	25.3	20.3	25.0	(7.1)	25.5	18.8	58.0	41.2
Total	**143.6**	**132.3**	**95.9**	**102.8**	**158.1**	**122.4**	**126.5**	**90.5**
Pre-exceptional operating margin (%)								
Industrial thread and zips	10.4%	10.6%	8.0%	10.3%	12.2%	10.1%	6.9%	5.0%
Crafts	4.5%	3.8%	4.8%	-1.2%	4.3%	3.2%	9.1%	7.0%
Total	**8.4%**	**8.4%**	**6.8%**	**6.2%**	**9.4%**	**7.6%**	**7.7%**	**5.7%**

We have been investing at greater levels in new product development.

Investment in new plant and systems amounted to $50.5 million (2010 – $36.5 million). This capital expenditure was focused on productivity improvements in the Industrial Division and supporting growth initiatives across Coats, including investment to support our digital strategy.

Reorganisation costs were lower than in previous years at $14.6 million (2010 – $19.8 million), focused on headcount reduction in EMEA Crafts. The timing of reorganisation spend has resulted in the cash outflow during the year of $13.7 million being significantly down on last year (2010 – $23.6 million).

European Commission investigation
As noted in previous reports, in September 2007 the European Commission concluded its investigation into European fasteners. It imposed fines against several producers, including a fine against the Coats plc Group of €110.3 million in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation and is vigorously contesting the Commission's decision in an appeal which was lodged with the European General Court in Luxembourg. Following written pleadings and a subsequent oral hearing which took place on 7 July 2011, Coats has been informed that the General Court will hand down its judgement relating to the appeal on 27 June 2012.

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

Prospects
The state of the global economy is likely to remain fragile and beset with uncertainty during 2012. While some modest economic growth can be expected in the US and more significant growth is anticipated in emerging markets, minimal growth is expected in Europe. Raw material cost pressures are expected to ease slightly in 2012. However, payroll and other inflationary pressures are expected to remain high in many of the countries in which Coats operates. Conditions in the first half of 2012 are expected to remain subdued and this will put pressure on first half profitability compared to the strong 2011 first half performance, which was the best first half pre-exceptional operating profit performance under GPG ownership. Consequently, we anticipate a different profit phasing profile in 2012 compared to 2011.

Year-on-year improvement in Industrial sales is expected during 2012, with contributions from both price and volume. Underlying demand for clothing and footwear by consumers is expected to remain stable during 2012 and the expectation is that retailer inventory will not be materially further reduced.

The Crafts Division achieved sales growth of 6% in 2011 and further underlying growth is expected in 2012 overall, reflecting price and volume increases, with benefits from expanded shelf space with large retail customers. Some improvement in margins is anticipated by the second half as the benefits of price and volume increases and European cost reductions continue to take effect. Assuming some pick-up in the Western European macro-economic environment, the Crafts business remains on track to deliver margins in the range of historic levels seen in 2004 and 2005 within a two year time frame.

It is anticipated that restructuring activity in 2012 will remain broadly in line with 2011 levels and capital and restructuring spend in aggregate is expected to be broadly in line with depreciation (including amortisation of computer software).

Gary Weiss
As was stated earlier in the Chairman's statement, 2011 will be the last full year in which Gary Weiss will serve as Chairman. Gary has served Coats outstandingly well for nine years. I know I speak on behalf of all my colleagues when I say that Coats has benefitted immensely from Gary's profound knowledge and love of the business, impeccable standards of integrity and unwavering commitment to developing this fine Company so that it can have even greater future success. We will miss Gary as he focuses on his many other interests and wish him every happiness and success.

In conclusion
Coats' strong brands, substantial market shares and truly global operations, along with its unparalleled access to apparel and footwear companies, industrial manufacturers and Crafts channels, are providing the base for revenue growth and enabling margins to be maintained despite challenging market and cost conditions.

Coats is focused on four primary areas of growth in the Industrial business above and beyond that of the core apparel and footwear market; namely zips, speciality threads, global accounts and emerging domestic markets in the larger developing economies where we are enhancing our participation through the development of targeted product offerings.

In Crafts, we continue to focus on market share gains with key retail customers, progress in digital applications and class leading product ranges and service levels. We have been investing at greater levels in new product development, global sales and marketing, digital technology, recruitment and growth-related capital investment and are confident that these actions will sustain Coats' market leadership and revenue and profit growth.

Paul Forman
Group Chief Executive
30 March 2012

Our Divisions

Coats is organised into two business Divisions – Industrial and Crafts.

Industrial

Revenue in 2011

$1,142.3m
+8%
2010: $1,055.0m

What we do

Every year our industrial products go into 10 billion garments, 300 million pairs of shoes and a diverse range of products that are part of the fabric of everyday life: from seat belts and handbags to baseballs and tents. The strength of our business comes from our ability to work closely with our customers to develop thread and yarn solutions that add significant value to their product ranges.

Geographic revenue 2011

EMEA
$273.6m
Americas
$321.1m
Asia and
Rest of World
$547.6m

Key market segments

Apparel
Footwear
Automotive
Health care
Food and beverage
Luggage and travel
Home furnishings
Sporting goods
Outdoor goods
Protective clothing

Global customers

adidas, Abercrombie & Fitch, IKEA, DECATHLON, P&G, Lee, MICHELIN, MARKS & SPENCER, AMERICAN EAGLE OUTFITTERS, KOHL'S

Strategy

We are focused on four primary areas of growth in the Industrial business above and beyond that of the core apparel and footwear market – namely zips, speciality threads, global accounts and emerging domestic markets in larger developing economies.

Crafts

Revenue in 2011

$559.3m
+6%
2010: $528.6m

What we do

Coats Crafts has been providing a range of high quality threads and yarns for handicrafts since the 18th Century. Today Coats is the world's leading supplier of recognised handknitting brands, lifestyle fabrics and needlecraft products. Our brands include Rowan, Cisne, Red Heart, SMC, Anchor, Coats and Opti. Every year our creative teams work with designers from all over the world to create a range of rich pattern collections which inspire devoted fans of crafting.

Geographic revenue 2011

EMEA
$170.8m
Americas
$303.0m
Asia and
Rest of World
$85.5m

Key activities

Handknittings
Crochet
Lifestyle fabrics
Needlecraft
Accessories

Brands include

Anchor, REGIA, SMC, ROWAN, cisne, Coats Duet, RED HEART, SMC, Opti

Strategy

We continue to focus on market share gains with key retail customers, progress in digital applications and class leading product ranges and service levels.

Industrial

Industrial

	2011 reported $m	2010 like-for-like* $m	2010 restated*** $m	Like-for-like increase %	Actual increase %
Sales					
Asia and Rest of World	547.6	505.4	503.3	+8%	+9%
Americas	321.1	307.4	300.8	+4%	+7%
EMEA	273.6	255.4	250.9	+7%	+9%
Total sales	**1,142.3**	**1,068.2**	**1,055.0**	**+7%**	**+8%**
Pre-exceptional operating profit**	**118.3**	**113.2**	**112.0**	**+5%**	**+6%**

* 2010 like-for-like restates 2010 figures at 2011 exchange rates
** Pre reorganisation, impairment, and other exceptional items (see note 5 to the accounts)
*** In line with changes in 2011 to the Group's internal management structure, results are now presented for EMEA (Europe, Middle East & Africa), as opposed to Europe, and the 2010 comparative figures have been restated accordingly
In the following commentary, all comparisons with 2010 are on a like-for-like basis

Sales

$1,142.3m
+7%
2010: $1,068.2m

The key driver of the 8% sales growth in Asia was selling price increases to mitigate the unprecedented raw material cost rises. In the second half, volume growth was impacted by weaker global economic conditions, and associated supply chain adjustments by the major brands, depressing the Asian apparel and footwear export sectors, and there was some pressure on margins. Coats' long-established relationships with global apparel and footwear suppliers and brand owners continue to help underpin the business.

Sales growth of 4% in the Americas for the year as a whole reflects significant variability between the first and second halves of the year, with nervousness over the state of the world economy affecting market confidence in the second half. The key drivers for the sales growth were selling price increases introduced to offset considerable raw material inflation and we have seen significant growth in speciality applications outside of apparel and footwear. Productivity benefits have contributed to good profitability improvement.

The EMEA industrial sales growth of 7% reflected generally buoyant consumer demand in the first half of the year, although in North Africa there was some disruption to customer activity from the political troubles there. Selling price increases were achieved to help offset raw material price rises. As for the Americas, notable growth was achieved in speciality sales. EMEA has delivered improved profitability, benefiting from enhanced productivity.

Crafts

Crafts

	2011 reported $m	2010 like-for-like* $m	2010 restated*** $m	Like-for-like increase %	Actual increase %
Sales					
Asia and Rest of World	85.5	75.7	77.0	+13%	+11%
Americas	303.0	289.0	284.1	+5%	+7%
EMEA	170.8	175.1	167.5	-2%	+2%
Total sales	**559.3**	**539.8**	**528.6**	**+4%**	**+6%**
Pre-exceptional operating profit**	**25.3**	**19.4**	**20.3**	**+30%**	**+25%**

* 2010 like-for-like restates 2010 figures at 2011 exchange rates
** Pre reorganisation, impairment, and other exceptional items (see note 5 to the accounts)
*** In line with changes in 2011 to the Group's internal management structure, results are now presented for EMEA (Europe, Middle East & Africa), as opposed to Europe, and the 2010 comparative figures have been restated accordingly. The impact is negligible
In the following commentary, all comparisons with 2010 are on a like-for-like basis

Sales

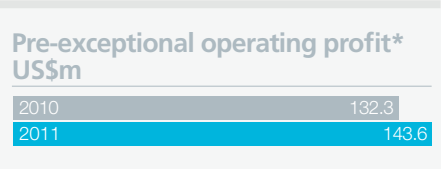
$559.3m
+4%
2010: $539.8m

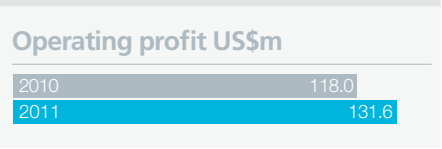
Sales growth of 5% in the Americas reflects strong growth in handknittings in both North America and Latin America, although weighted in the latter towards the winter season in the first half of the year. Selling price increases were implemented to help offset significant raw material cost rises and profitability was maintained.

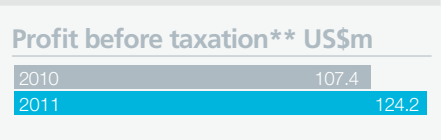
The EMEA Crafts market remains weak, particularly in Southern Europe where austerity measures and cuts in public spending continue to constrain consumer confidence, and sales overall were down 2% from last year on a like-for-like basis: a marginal improvement over the 3% decrease reported in 2010.

Demand for handknittings – the key product category – increased, and significant year-on-year growth was generated from our initiatives in lifestyle fabrics. As for the Americas, selling price increases were implemented to help offset significant raw material cost rises. Notwithstanding the weak consumer environment, operating losses reduced, with benefits from ongoing headcount reductions. Service levels are now at consistently much higher levels and product innovation has increased significantly and the business is well positioned to take advantage of any improvements in market conditions.

Group review







* Pre reorganisation, impairment and other exceptional items (see note 5 to the accounts)
** Pre notional interest (see note 5 to the accounts)

Exceptional operating items

Net exceptional costs charged to operating profit have reduced to $12.0 million (2010 – $14.3 million). The key item is reorganisation costs, which have reduced from $19.8 million in 2010 to $14.6 million in 2011. Other exceptional items include gains of $2.7 million (2010 – $6.1 million) from property disposals, $4.0 million (2010 – nil) from a UK pension increase exchange offer and $1.0 million (2010 – $1.9 million) from foreign exchange, partly offset by US environmental costs of $2.5 million (2010 – $2.5 million) and capital incentive plan charges of $2.6 million (2010 – nil).

As part of the long-term strategy to manage risks and uncertainties associated with the UK pension plan, during the year Coats offered certain pensioners the opportunity to uplift their pension with effect from March 2012, in return for giving up rights to annual inflationary increases. The level of pensioner acceptance by the year end resulted in a past service credit of $4.0 million, reflecting the reduction in liabilities which has arisen.

As noted in last year's report, the US Environmental Protection Agency has notified Coats that it is a potentially responsible party under the US Superfund for investigation and remediation costs in connection with the Lower Passaic River Study Area in New Jersey, in respect of former facilities which operated in that area prior to 1950. Approximately 70 companies to date have formed a cooperating parties group to fund and conduct a remedial investigation and feasibility study of the area.

Coats joined this group in 2011 and the $2.5 million (2010 – $2.5 million) charged in the year is in respect of Coats' updated estimated share of the cost of this study and associated legal and consultancy expenses.

The capital incentive plan was implemented in 2011 and is a GPG arrangement for the benefit of certain senior Coats executives. However, under International Accounting Standards, the cost of the plan is required to be accounted for by Coats, including the recognition of a deemed equity contribution in reserves. Awards were granted by GPG on 16 May 2011 and are currently assumed to vest in March 2014. The fair value of the ultimate settlement was estimated at $12.0 million at the date of grant and this charge is being recognised over the assumed vesting period.

Investment income and finance costs

Finance costs before exceptional items and net of investment income, reduced to $9.5 million (2010 – $11.0 million).

Investment income increased to $7.3 million (2010 – $4.7 million) reflecting $4.1 million compensation received in respect of a compulsory state financing arrangement in Latin America in the 1980s and 1990s.

Finance costs before exceptional items increased to $16.8 million (2010 – $15.7 million). The key movements were a $3.1 million higher charge in 2011 from the revaluation of foreign exchange contracts, largely offset by a $2.9 million higher net return on pension scheme assets and liabilities.

Exceptional finance income was $56.5 million (2010 – $26.0 million finance cost) and relates entirely to notional interest on the subordinated and convertible amounts owed to the parent company of $133.3 million (2010 – $199.2 million). As explained in note 23, notional interest of $59.6 million that had been charged in previous years was reversed in 2011 following the extension of the term of the subordinated and convertible amounts owed to the parent undertaking from June 2013 to April 2017, in connection with the refinancing of the Group's main borrowing facility.

Tax

The tax charge was $45.6 million (2010 – $42.2 million) on pre-tax profit of $180.7 million (2010 – $81.4 million). Excluding prior year tax adjustments and exceptional items plus their associated tax effect, the effective tax rate was 35% (2010 – 37%). This reduction reflects lower unrelieved losses, principally in Europe.

Pension and other post-employment benefits

The Group's key funded defined benefit arrangements are in the UK and USA.

As at 31 December 2011, the UK scheme showed a deficit of $251.0 million on an IAS 19 accounting basis, compared to a gross surplus of $18.6 million and a recoverable surplus of $1.5 million at the 2010 year end. The movement in the year reflects a $290.8 million actuarial loss, with the reduction in the differential at 31 December 2011 between the discount rate of 4.6% (2010 – 5.5%) and the inflation rate of 2.75% (2010 – 3.3%) being the key driver. The 2011 discount rate is determined by the yields on AA long-dated corporate bonds on 31 December 2011, which were at historically low levels

on that date. Since 2000, the average has been 5.7% and rates have very rarely been below 5%. Company contributions remain at $13.4 million per annum (at 31 December 2011 exchange rates) in line with the ten year recovery plan agreed with the scheme's trustee as part of the April 2009 triennial valuation.

As at 31 December 2011, the USA scheme showed a gross surplus of $72.1 million (2010 – $69.5 million) and a recoverable surplus of $33.7 million (2010 – $32.0 million). An employer contribution holiday for this scheme continues to be taken based on actuarial advice. The recoverable surplus for this scheme is predominantly included in non-current assets.

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) increased to $200.6 million (2010 – $191.2 million).

The cash inflow from normal operating activities increased to $150.3 million (2010 – $117.8 million). In addition to the EBITDA improvement, this also reflected a $42.6 million lower net working capital outflow at average exchange rates of $29.5 million (2010 – $72.1 million), partly reflecting the cautious outlook for the first half of 2012.

Spend on reorganisation and capital projects totalled $64.2 million (2010 – $60.1 million), representing 1.1 times (2010 – 1.0 times) depreciation and amortisation of $57.0 million (2010 – $58.9 million).

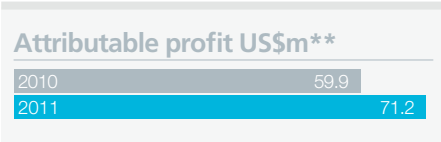
Interest and tax paid was $60.7 million (2010 – $55.5 million).

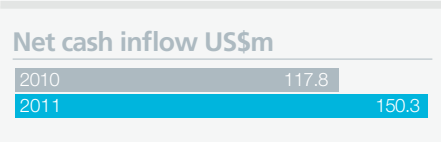
The cash outflow of $1.1 million (2010 – $0.2 million) arising from the acquisition of businesses represents the investment in 2011 in a new joint venture partnership formed to market a proprietary tracer thread; a value-added product for global brands in their fight against counterfeiting.

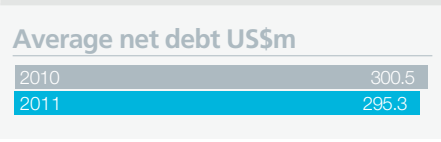
The above contributed to the year end net debt reducing by $3.5 million to $238.4 million (2010 – $241.9 million).

Balance sheet

Equity shareholders' funds fell by $197.3 million to $97.0 million (2010 – $294.3 million). This reflects the $325.0 million (2010 – $18.7 million) net loss taken directly to reserves, partly offset by $127.7 million (2010 – $33.9 million) attributable profit. The reserves movement largely reflects actuarial losses in respect of all of the Group's retirement benefit arrangements of $299.3 million (2010 – $26.6 million), and exchange translation losses of $36.3 million (2010 – $8.1 million gain), which arose on the translation of operations with functional currencies other than the US dollar.







Corporate Responsibility

We operate to the highest ethical business and employment standards across all our global operations.

Coats is a growing business, operating on the ground in over 70 countries worldwide. Our global scale enables us to leverage our expertise and develop local market opportunities – therefore building closer relationships with our customers. However, the diversity and complexity of our operations bring their own challenges – some of these relate to social or environmental issues unique to a particular country or location; others apply globally. Either way, it is imperative that we understand our impact on society and manage our business responsibly wherever we operate.

Developing our Corporate Responsibility approach

During 2011 we looked critically at our social and environmental initiatives and carried out a strategic review of our Corporate Responsibility (CR) programme. A multi-functional team came together from across the business to identify the important CR issues for Coats. These issues were prioritised by considering their importance to our key stakeholders and their relevance to our corporate goals. For greater clarity, we grouped the issues into seven strategic themes. For each of the themes, we have developed an action plan to direct our progress. In November we appointed a global Head of CR to coordinate the programme and to make sure that we achieve our objectives.

This report provides the first update against our new CR approach, with more detail given on our website.

Our Standards

At the core of our CR programme are the standards that we subscribe to as a company. During 2011 we carried out a thorough review of our CR policies and identified some gaps which we are in the process of filling. We consolidated the CR governance structure by formalising the membership of a CR Steering Committee (including members of our Management Board) and a broader, company-wide CR group with their own terms of reference, which are published on our website.

Code of Conduct

In July we renewed and strengthened our long-standing Business Code of Conduct. The Code applies to all employees in all Group companies globally. Senior managers are required to certify compliance with this Code on an annual basis for the operations for which they have responsibility. A Whistleblowing Policy and process is also in place to encourage the reporting of any incidents of non-compliance with the Code.

Ethics and anti-corruption training

During the second half of the year we launched a new online training package covering many of the themes in our CR programme: anti-corruption, competition and ethics. The latter included training on fraud, conflict of interest, environment, health and safety, and employment issues such as harassment and discrimination. To date almost half of the 4,150 senior employees and those with customer or supplier facing roles have completed this training. The remainder are expected to have done so by mid 2012.

In addition, over the coming year, we will continue to embed our CR policies throughout our business and establish a robust approach to monitoring and evaluation.

Our People

We value our workforce highly and employ over 22,000 people worldwide. To deliver our business strategy, both now and in the future, we must attract, retain and motivate employees with the necessary skills and talent across the Group.

We have set high standards across the business through our global HR policies, which as a minimum are compliant with local employment laws and regulations. Specific

"Coats is proud to be a responsible company, robust against the challenges of the future. Our Corporate Responsibility programme underpins that aim and I am pleased with the progress we have made."
Paul Forman, Chief Executive

HR programmes are being developed through three Centres of Excellence for resourcing, talent leadership and learning, and reward. Our global HR team is supported by a network of local HR professionals, who have an understanding of the local culture and norms in the countries in which we operate, and who are helping us to achieve our aims.

Equal opportunity and diversity

We believe in equal opportunities and pride ourselves on the diversity of our workforce. Our status as a truly international company is reflected in the level of national diversity to be found in our senior management group (of 105), which has representatives from 25 different nationalities. Women are also playing an increasing role, with 18 currently in the senior management group (up from twelve in 2011, and nine in 2010), and a 42% presence in our global employee headcount.

Employee engagement

It is important that our employee behaviours are aligned with the business strategy. We have established a global employee engagement programme, through one of our Centres of Excellence. For two years we have been running annual employee engagement surveys in which over 21,300 people took part last year, representing a 93% participation rate – well above the industry average of 79%. Also, our average engagement score in 2011 was 72%, which is higher than the manufacturing industry norm of 67%.

Health and safety

It is important to Coats that we keep our employees safe. During 2011 we had zero work-related fatalities and no health and safety related prosecutions. Our accident rate for the year was only 0.6 reportable incidents per 100 full time employees (FTEs) globally. This is much lower than the average of 3.3 as reported by OSHA for US textile mills. Our health, safety and welfare programmes have been successful in keeping our accident statistics low, but we can see the further advantages that a more pro-active Behaviour Based Safety (BBS) programme can bring. We have had success in various countries in implementing a BBS programme and have seen first-hand how that can influence our overall accident rate.

Over the coming year we will be working hard to implement our HR strategy, to further develop our employee engagement programmes and will continue to roll out BBS across the Group.

Our Manufacturing

As a manufacturing business we aim to use resources as efficiently as we can – whether they be the materials required to make thread, yarn or zips, the energy we need to power our factories and machinery, or the water used by the processes we employ. Through clean and efficient operations we seek to both minimise our impact on the environment, as well as increase our cost effectiveness.

Materials

In 2011, we used over 140,000 tonnes of materials. This includes polyester, cotton and acrylic fibres, polyester and nylon filament, grey thread, dyes and chemicals, as well as packaging materials. We measure and monitor how effectively we convert materials at each step of the manufacturing process to ensure that we keep the amount of waste we produce to a minimum.

Packaging

We also seek to reduce our packaging, particularly through minimising the amount of materials we use. For example, by re-engineering the cone on which our industrial thread is wound, our business in India has reduced the amount of plastic used by over 30%, without affecting its strength or any other performance characteristics.

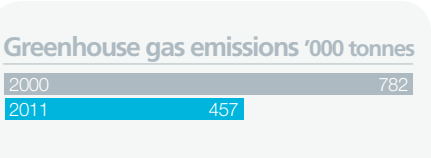
Energy

Last year, we used 969 million kWh of energy (electricity and fossil fuels), which equates to 14.3 kWh per kg of dyed product. This is a reduction of 7% on the previous year on a like-for-like basis (2010: 1,038 million kWh, 15.4 kWh per kg of dyed product). This has continued the trend of recent years as shown in the case study (see right). We have achieved this through a combination of investment in energy efficiency – such as utilising better manufacturing schedules, regular maintenance and optimising building management – as well as in new technology.

Water

Water is another crucial resource. In some of the locations where we operate water is often scarce, and so we have a responsibility to use it in a clean and efficient way. Indeed, much of the water we use is reused or returned to the natural environment after suitable treatment.

Over the coming year we will be re-confirming our baselines of consumption relative to output for each of our environmental priority areas (use of materials, energy and water). We will then identify options for improved efficiency and deriving targets for 2013 onwards.



A long-term commitment to carbon reduction

Our focus on improving energy efficiency and reducing our contribution to climate change has helped cut our emissions of greenhouse gases by 42% since 2000.

Energy is a vital resource for our business and we are proud that we have significantly reduced our consumption since 2000. Although there have been some structural changes during this period (divesting non-thread interests), the vast majority of this reduction has been achieved by investing in new technology, such as low energy twisting processes, together with a shared commitment to be more efficient in the way we operate. As a result, our emissions of greenhouse gases from our energy use in manufacturing have reduced from 782,000 to 457,000 tonnes over the same period on a like-for-like basis.

We recognise that our climate is changing, and as an energy user we have a role to play in reducing our contribution to it. We have made good progress and will continue to drive down our energy consumption and reduce emissions from our business.

Over the past year we have reviewed our approach to Corporate Responsibility, have identified what is important to us as a business and have set global action plans and targets.

Rowan Purelife recycled handknitting yarns
Under our Rowan Purelife handknitting brand, unwanted clothing is being recycled to produce yarns which can be made into fashionable garments with a vintage allure.

Unwanted clothing – used, faulty or sometimes new – is brought in and sorted by colour, quality and fibre composition. The sorted garments are then cut into pieces and shredded to reduce them to loose fibres. The fibres are then processed to make regenerated fibre, which is then spun into cotton, silk and viscose yarns of high quality.

Our Products

We supply yarn, zips, sewing and needlework products to a wide range of markets around the world. Our products are part of the fabric of everyday life: from clothing, accessories and furniture to fibre optics and healthcare items. Last year we dyed nearly 140,000 different colours in over three million production batches, making Coats the world's leading player in industrial threads and textile craft products, and the second largest global zip manufacturer.

Sustainable products

We consider the direct impacts of our product manufacture, as well as the issues throughout the whole lifecycle of their development and use. As a result, we are increasingly using recycled and sustainable materials in our product development and increasing the proportion of recycled material used in our packaging. For industrial use, we have developed threads made from recycled polyester and from organic cotton under the EcoVerde brand. We have also introduced the Purelife collection of yarns made from recycled garments (see the case study above).

Product safety

We are committed to ensuring the safety of our end consumers when using our products. As a result we continually take feedback on product performance and are working with our suppliers to ensure the safety of our raw materials and product components. We maintain a Restricted Substances List (RSL) which incorporates the requirements of all the major internationally recognised environmental standards (for example REACH, Oeko-Tex, CPSIA). It is rigorously enforced and, where necessary, extended to reflect tightening commercial and legal limits for dangerous substances. We believe this is the most comprehensive RSL in the textile industry and it has been referenced by other organisations as best practice.

Our aim is to maintain zero incidence of product safety related issues. Over the coming year we will be reviewing the risks associated with our existing product lines and ensuring that we take account of safety issues in new product development.

Our Environment

We recognise that our environmental impact extends beyond the boundaries of our factory gates as we generate emissions from the energy we use and waste from our production processes, including waste water.

Our environmental policy ensures that our operations around the world maintain a consistent approach to managing our environmental impact. This policy is available on our website. In addition, nine of our operations have a formal Environmental Management System in place, including Bulgaria, Hungary and Vietnam, certified to ISO14001.

Carbon footprint

In 2011, the carbon footprint of our operations (excluding transport) was 457,000 tonnes. This is a reduction of 3% compared to the previous year on a like-for-like basis, as we have improved our energy efficiency and reduced our energy consumption.

Waste

We also recognise that our activities produce waste and so we strive to reduce, recycle or re-use this where we can. For the waste that we are unable to eliminate, we make sure that this is disposed of in a safe and responsible manner.

Effluent

Of the water we used in 2011, 89% was discharged as waste effluent. Any effluent that we discharge must not only comply with local legislation and discharge limits, but also work towards meeting our own internal global effluent policy. This policy has been developed to ensure that all our operations, regardless of location, will meet a high standard in terms of the effluent they discharge.

Environmental prosecutions

We had no environmental prosecutions during 2011. There were a few minor incidents, which we monitored very closely. We take our relationships with all regulatory bodies very seriously and, no matter how small the incident, we are always proactive with the local authorities, undertaking robust investigations into what happened and putting in place measures to prevent any future occurrences.

During 2012, we will continue to implement our Corporate Responsibility approach and work towards a more sustainable future.

Over the coming year we will be mapping our global carbon footprint, taking account of our energy and refrigerant use as well as our transport activities. We will also establish our baseline of waste production relative to output. We will then identify options for improved efficiency and derive targets for 2013 onwards.

Our Partners

As a supplier of yarns, threads, zips and related products to a range of manufacturing industries and retailers, Coats plays a key role in the value chain, providing a link between raw material producers and end users. We regularly engage with our customers in managing wider social and environmental issues associated with product manufacture. All our industrial products are supported by our exclusive range of Coats Sewing Solutions Services. Through these services, we work with our direct customers and our suppliers to develop product lines that meet the strict performance criteria of our global branded customers and end users. This not only reduces costs for our direct customers, it enhances the quality of the end product and minimises waste throughout the manufacturing process.

Supply chain audits

Our manufacturing plants are regularly audited by our clients and global branded customers and we are meeting their ethical trade standards. In China we have strategically placed trained staff as CPI (Compliance Practitioners Initiative) Certified Corporate Responsibility Auditors. They are now equipped with the skills to carry out their own social compliance audits. Using the CPI training materials, the accredited Lead Auditors have also developed our own Internal Auditor Training Programme which is being rolled out at our factories.

Working in partnership

We are committed to working with others across the industry and during 2011 we joined the Global Apparel, Footwear and Textile Initiative (GAFTI). This initiative aims to bring together retailers, brands, and manufacturers to improve efficiencies and implement global standards for ethical trade. The group is focusing on three areas: product safety, sustainability and compliance. GAFTI is also working in collaboration with the Sustainable Apparel Coalition, to develop a common approach to measuring and evaluating apparel and footwear product sustainability performance.

Over the coming year we will be reviewing our own approach to ethical and sustainable supply chain management. We will then strengthen our supplier standards and will work with our key partners to implement them.

Our Communities

We are a global company operating on the ground in over 70 countries worldwide. We pride ourselves on being a part of the local communities in which we operate and our units are encouraged to develop close relationships with local people, business partners and community groups.

In many locations around the world, we have a community programme in place and many of our employees volunteer to be part of these initiatives. For example, in Thailand, Coats employees were able to help their local community to overcome the adversity they faced from recent floods, as described in the case study (see right).

We also aim to be a good corporate citizen and engage regularly with local authorities and other organisations in the community. It is important to us that we play a key role in local society, not least of which because that's where our employees come from. However, we have yet to globally align our community and charitable activities, which are currently handled at a local level.

During 2012 we plan to develop a global policy to define our corporate approach to community investment. We will report on our progress next year.

Our plans for the future

Over the coming year we will continue to implement our CR blueprint. We will engage with our employees in the journey and communicate progress to our key stakeholders. Further information on our approach and performance can be found on our website.

To meet the commitment we made in the 2010 Annual Report, we are now reporting in line with the requirements of the Global Reporting Initiative (GRI) 2011 sustainability reporting guidelines (G3.1). Please refer to our website to see how we have complied with the GRI.

Helping with Thailand's flood relief efforts

The recent flood crisis in Thailand had a devastating effect on many Thai families. Millions were displaced, agricultural land was swamped and factories flooded. While our factory was lucky enough to remain unscathed, many of our employees' homes were flooded, some to depths of up to two metres. Coats gave a hardship allowance to the 40 employees whose homes were affected. Coats Thailand also set up a 'Flood Relief Volunteer Team' to support the Thai Red Cross Society. They formed part of a larger team that produced on average 5,000 Red Cross Relief Kits per day, with drinking water and other necessities being distributed to flood victims in 32 provinces.

Board of Directors
An experienced team

Dr Gary Weiss (58)
Chairman

Appointed
February 2003
Became Chairman in December 2003

Committee membership
Audit
Nominations (Chairman)

Experience
Gary has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions.

Gary was an Executive Director of Guinness Peat Group plc from 1990 to April 2011 and has held directorships at leading listed companies. Currently he is Chairman of Secure Parking Pty Ltd and Executive Director of Ariadne Australia Ltd.

Paul Forman (46)
Group Chief Executive

Appointed
December 2009
Became Group Chief Executive on 31 December 2009

Committee membership
Nominations
Risk

Experience
Paul has wide experience in global manufacturing, as well as strategy consultancy and M&A advisory services.

Previously he was Group Chief Executive of Low & Bonar PLC, a UK listed global performance materials group, and prior to that, MD at Unipart International, the leading European automotive aftermarket supplier.

Mike Allen (52)
Non-Executive Director

Appointed
December 2010

Committee membership
Audit
Nominations

Experience
Mike has over 25 years' experience in investment banking and general management, both in New Zealand and the UK, including senior roles at Southpac Corporation and Westpac.

He is a Director of Guinness Peat Group plc as well as various publicly listed companies. Mike is also the current Chairman of PGG Wrightson Finance.

Rob Campbell (61)
Non-Executive Director

Appointed
October 2011

Committee membership
None

Experience
Rob is currently Chairman of Guinness Peat Group plc. He has over 20 years' experience in investment management and corporate governance and held board appointments in private and public sector organisations in New Zealand.

He is also Chairman of Turners and Growers Ltd., a director at various listed companies and a board member for several global private equity and hedge funds.

Blake Nixon (51)
Non-Executive Director

Appointed
July 2003

Committee membership
Audit (Chairman)
Remuneration

Experience
Blake has wide corporate experience working for companies in both the UK and overseas.

He was an Executive Director of Guinness Peat Group plc from March 1990 to July 2001 and remains a Non-Executive Director. He is a Founder Principal of Worsley Associates LLP and has previously served on the boards of various UK listed companies.

Rex Wood-Ward (62)
Non-Executive Director

Appointed
September 2004

Committee membership
Audit
Remuneration

Experience
Rex has over 35 years of international experience in general management, mergers and acquisitions, corporate strategy and structuring.

Rex has been a director of several public companies on three continents and serves on the boards of a number of listed and unlisted companies in the UK and Australia.

Simon Heale (58)
Independent Non-Executive Director

Appointed
June 2011

Committee membership
Nominations
Remuneration (Chairman)

Experience
Simon has considerable international business experience and was formerly Chief Executive of The London Metal Exchange, Chief Operating Officer of Jardine Fleming Limited and Deputy Managing Director of Cathay Pacific Airways.

He is also a Non-Executive Director of Kazakhmys, The Morgan Crucible Company plc, Marex Group Limited, PZ Cussons plc and a Trustee of Macmillan Cancer Support.

Isabella Loh (51)
Independent Non-Executive Director

Appointed
June 2011

Committee membership
Audit
Remuneration

Experience
Isabella is the Chairman of the Singapore Environmental Council and sits on the Global Board of Aurecon Pte Limited.

Formerly she was Chairman of Shell Marine Products Ltd, CEO and Vice President for Shell Global Marine Fuels and Lubricants and CEO of SembCorp Environmental Management Pte Ltd. She is a Fellow of the Chartered Management Institute.

Alan Rosling (49)
Independent Non-Executive Director

Appointed
August 2011

Committee membership
Audit
Remuneration

Experience
Alan has considerable experience in international corporate finance and strategy consultancy. He is Chairman of Kiran Energy, a solar power developer, and Griffin Growth Partners, a specialist strategic advisory firm in India.

Formerly he held positions as an Executive Director of Tata Sons, Chairman of Jardine Matheson Group in India and was a Special Advisor to the British Prime Minister, John Major.

Members of the Audit Committee

Date of appointment	
Blake Nixon (Chairman)	8 December 2004
Gary Weiss	8 December 2004
Rex Wood-Ward	8 December 2004
Mike Allen	8 February 2011
Isabella Loh	11 October 2011
Alan Rosling	11 October 2011

Members of the Nominations Committee

Date of appointment	
Gary Weiss (Chairman)	11 October 2011
Mike Allen	11 October 2011
Simon Heale	11 October 2011
Paul Forman	11 October 2011

Members of the Remuneration Committee

Date of appointment	
Simon Heale (Chairman)	11 October 2011
Rex Wood-Ward	8 December 2004
Blake Nixon	8 December 2004
Alan Rosling	11 October 2011
Isabella Loh	11 October 2011

Roger Bevan (52)
Company Secretary

Appointed
August 2006

Experience
Roger has over 20 years' experience at Coats, holding a number of unit and regional roles prior to his appointments as CFO and Company Secretary of Coats plc.

He is a member of the Institute of Chartered Accountants in England and Wales and holds a Law degree (LLB) from the University of Wales and an MBA from Manchester Business School.

Group Management Board
Focused on performance

Chris Butcher (53)
Chief Supply Chain Officer

Expertise
In his role as Chief Supply Chain Officer, Chris is responsible for driving supply chain strategy across the business, including procurement and supplier management, manufacturing strategy/best practice, risk mitigation (including health & safety standards) and quality management.

Chris joined Coats as Group Procurement Director in 2010 following 15 years in senior supply chain roles in the automotive and rail industries. Prior to that Chris also held senior financial posts in both automotive and pharmaceuticals. Chris has a degree in Economics from Exeter University and is a Fellow of the Chartered Institute of Management Accountants.

Richard Cammish (45)
Chief Information Officer

Expertise
Richard joined Coats in March 2011 and as Chief Information Officer has global responsibility for Information Technology within the organisation. Over the last 20 years he has worked in a number of international businesses including Cadbury, BAT, Heineken and Mars, as well as being involved in a technology start up.

He has a Manufacturing Engineering degree from Manchester University and in his career has held roles in Asia, Europe and North America. His experience with Information Technology includes delivering global transformation programmes in Sales & Marketing, Supply Chain, HR and Finance.

Johan DePraeter (58)
Global CEO, Crafts Division

Expertise
Johan leads the Crafts Division Globally and has more than 24 years of sales, marketing and management experience within Coats. These include serving as Managing Director Coats Industrial North America, Managing Director Coats Mexico and Central America and Vice President Marketing Coats & Clark.

Prior to joining Coats Johan was involved in two successful start ups in Canada. He graduated from Loyola college with a B.A. in Economics and completed the Harvard Business Management Program in 2002.

Richard Howes (42)
Chief Financial Officer

Expertise
Richard joined Coats as Chief Financial Officer in February 2012. Previously he held the same position at Topaz Energy and Marine, an oil field services company. Richard also worked for FTSE 250 company Geest plc, an international food manufacturer, and was made CFO following its takeover by the Bakkavor Group. Richard qualified as a Chartered Accountant before joining Dresdner Kleinwort Benson's Corporate Finance team.

His experience includes a broad range of financial and commercial responsibilities including debt and equity capital market transactions, M&A and as well as leading senior management functions. Richard holds a BSc (Hons) in Geography from Loughborough University.

Richard C. Norman (61)
Chief Human Resources Officer

Expertise
Richard (Dick) directs global human resources for Coats plc. Prior to his appointment in 2007, Dick was Vice President of Human Resources for ten years for Coats' operations in North America, including US, Canada, Mexico, Central America and the Caribbean. He served as interim Global Director of Human Resources for Coats plc from 2000 to 2002.

Prior to joining Coats North America, Dick served in various human resource capacities over an 18 year period for Hoechst Celanese Corporation in North Carolina, South Carolina and Texas. He graduated from BS University of North Carolina, Chapel Hill and holds a Masters in Human Resources and Labour Relations from the University of Minnesota.

Michael Schofer (50)
Chief Operating Officer, Crafts Division

Expertise
Michael is responsible for the operational leadership of the Crafts Division's worldwide sales and services organisations. In addition, he leads the Coats Project Portfolio Management office. Prior to his current role he was Chief Supply Chain Officer for Coats.

Michael has over 20 years of experience in Supply Chain Management and IT, having lived and worked in South America, North America, Europe and Asia. He has a degree in Business and Production management from Reutlingen University and completed the Harvard General Manager Program.

Rajiv Sharma (45)
Global CEO, Industrial Division

Expertise
Rajiv leads the Industrial Division and has responsibility for its global operations. During his career he has worked at companies such as Westinghouse, SAAB, Honeywell, GE and Shell, and his experience spans sales, marketing, M&A, business development and operations. The vast majority of his career has been dedicated to growing or turning around businesses.

Rajiv has a degree in Mechanical Engineering, as well as an MBA from the University of Pittsburgh, USA. He has lived in many different countries and covered all continents during his career.

Frazer Smith (51)
Chief Commercial Officer

Expertise
Frazer joined Coats in 2010 as Chief Commercial Officer and has responsibility for developing and driving the Group's growth-based strategy along with responsibility for marketing, R&D, communications, digital development and Corporate Responsibility.

Frazer has extensive international general management, commercial and consulting experience within companies such as Reckitt & Colman (now Reckitt Benckiser), Sony, McKinsey, Capital One and United Biscuits. He holds a degree in Natural Sciences and Management Sciences from Cambridge University.

The Board has put in place corporate governance arrangements that it believes are appropriate.

This report explains the extent to which the Company complied with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2010 in the year (the "Code"). The Company is a wholly-owned subsidiary of Guinness Peat Group plc and is committed to maintaining high standards of corporate governance and to applying the principles of good governance set out in the Code.

The Board has put in place corporate governance arrangements that it believes are appropriate for the operation of a wholly-owned subsidiary. This means that the Company does not adhere to best practice as set out in the Code particularly in relation to the composition of and appointments to the Board. These arrangements are periodically reviewed and will be amended as and when the Board considers appropriate; in this respect the Board constituted a Nominations Committee in the year to begin addressing this issue. In the meantime the Directors are therefore unable to confirm compliance with the Code throughout the year.

The Board

The Company is controlled through its Board of Directors, which takes collective responsibility for the success of the Company.

The Board's main objectives are to:

- provide entrepreneurial leadership of the Company within a framework of prudent and effective controls that enables risk to be assessed and managed;
- set the Company's strategic aims;
- ensure that the necessary financial and other resources are in place for the Company to meet those aims; and
- review management performance.

2011 focus

The focus in 2011 has been to move towards adherence with the Code by:

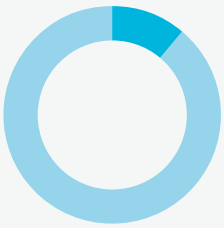
- strengthening the Board by the appointment of independent non-executive directors;
- establishing a Nominations Committee to formalise Board appointments and provide a mechanism for monitoring its performance; and
- bringing the Terms of Reference of the Board Committees up to date to comply with best practice.

2011 priorities

The priorities for 2011 included:

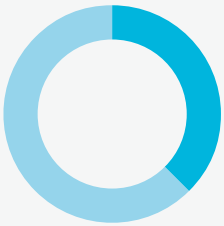
- in response to the Bribery Act 2010, putting in place appropriate procedures to prevent bribery being committed on the Company's behalf; and
- reviewing the Company's policies generally to ensure that they reinforce the behaviour expected from its employees.

Composition of Board



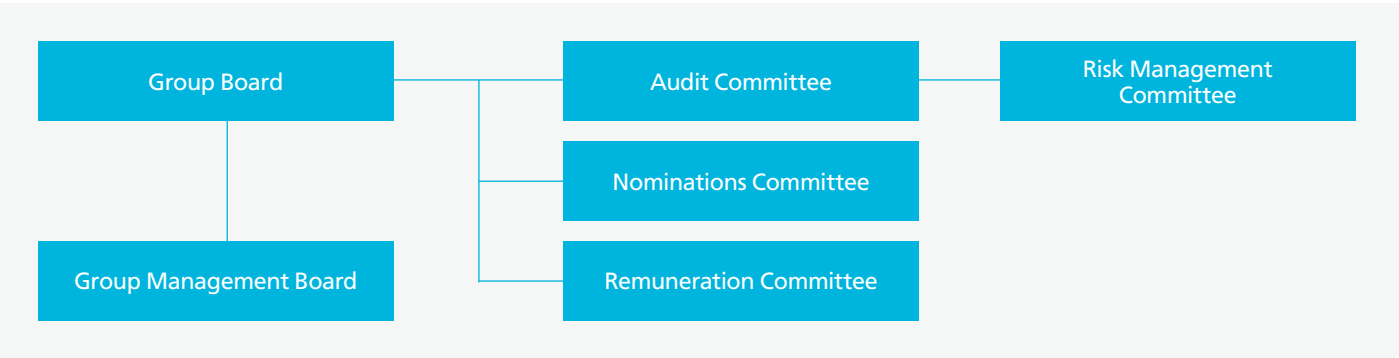
Executive Directors	1
Non-Executive Directors	8

Non-Executive Directors' independence



Independent Non-Executive Directors	3
Non-Executive Directors	5

Management structure



The Board had six meetings during 2011.

The roles of the Chairman and Group Chief Executive
The roles of the Chairman and the Group Chief Executive are separate and clearly defined.

The Chairman is responsible for running the Board including:

- leading the Board;
- ensuring its effectiveness on all aspects of its role;
- setting its agenda; and
- ensuring that the Board receives accurate, timely and clear information.

The Group Chief Executive is responsible for the running of the Company's business.

No one individual has unfettered powers of decision.

Directors and Directors' independence
The Board currently comprises a Non-Executive Chairman, Dr Gary Weiss, seven Non-Executive Directors and one Executive Director, Paul Forman, the Group Chief Executive. The names of the Directors, together with their biographical details, are set out on pages 24 and 25.

The independence of the Non-Executive Directors has been assessed in accordance with the Code. The Company did not comply with the requirement of the Code that at least half the Board, not including the Chairman, should comprise independent Non-Executive Directors. Three of the seven Non-Executive Directors, excluding the Chairman, are considered independent, namely Simon Heale, Isabella Loh and Alan Rosling. Mike Allen, Rob Campbell and Blake Nixon, who has been a Director since 2003, are also Directors of Guinness Peat Group plc, of which the Company is a wholly-owned subsidiary, although Mike Allen and Rob Campbell are considered independent in that context. Rex Wood-Ward has also been a Director of the Company since 2003 and was associated with Chapman International Ltd, a former shareholder of the Company.

The Chairman, Dr Gary Weiss, although Non-Executive, is not considered independent as up until April 2011 he was also a Director of Guinness Peat Group plc and has been a Director since 2003.

The Chairman and the Non-Executive Directors are not employees of the Company but the Company does pay them under deduction of tax where appropriate.

Board appointments, professional development, performance evaluation and re-election
As noted above the Company is a wholly-owned subsidiary of Guinness Peat Group plc and, although a Nominations Committee was established on 11 October 2011, prior to that date there was no formal or transparent process for:

- appointing new Directors; or
- ensuring that they have the appropriate skills or training for the role; or
- periodically evaluating the performance of the Board and its principal committees.

With the establishment of this Committee this omission has been rectified.

The Company does not have a Senior Independent Director so there is no evaluation of the performance of the Chairman.

Member	Position	Date of appointment if in this year	Meeting attendance	
			Eligible to attend	Attended*
Gary Weiss	Non-Executive Chairman		6	6
Paul Forman	Group Chief Executive		6	6
Blake Nixon	Non-Executive Director		6	5
Rex Wood-Ward	Non-Executive Director		6	6
Mike Allen	Non-Executive Director		6	5
Simon Heale	Non-Executive Director	2 June 2011	4	4
Isabella Loh	Non-Executive Director	13 June 2011	4	4
Alan Rosling	Non-Executive Director	16 August 2011	3	3
Rob Campbell	Non-Executive Director	20 October 2011	2	2

* Excludes meetings attended by invitation

Audit Committee

Blake Nixon
Audit Committee Chairman

"The work of the Group Internal Audit Department and the Risk Management Committee, the latter of which was set up in late 2010, has ensured that our internal controls remain robust and appropriate."

The Audit Committee is responsible for assisting the Board to discharge its duties with regard to the Company's financial affairs and in particular the presentation of a balanced and understandable assessment of the Company's position and prospects.

The Board has overall responsibility for ensuring that the Group maintains an adequate system of internal control and risk management and for reviewing its effectiveness. The Committee on behalf of the Board undertakes the detailed monitoring of the controls and reports to the Board on its findings. The Committee has reviewed the system of internal controls including financial, operational, compliance and risk for the year under review. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Committee is responsible for ensuring that arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial performance or other matters are operating effectively and that appropriate follow-up action takes place. The Group has a Whistleblowing Policy and there are posters and pamphlets displayed at each site giving details of what employees should do if they have concerns regarding any aspect of the business. Employees are encouraged to report any concerns without fear of

Committee Membership

The following were members of the Audit Committee in the year:

Member	Position	Meeting attendance	
		Eligible to attend	Attended*
Blake Nixon (Chairman)	Non-Executive Director	3	3
Gary Weiss	Non-Executive Chairman	3	3
Rex Wood-Ward	Non-Executive Director	3	3
Mike Allen	Non-Executive Director	3	3
Isabella Loh**	Non-Executive Director	1	1
Alan Rosling**	Non-Executive Director	1	1

* Excludes meetings attended by invitation
** Appointed 11 October 2011

recrimination and a confidential email address is available should staff wish to use it. These arrangements were reviewed by the Board during the year.

The full terms of reference of the Audit Committee are available on request and on the Company's website.

The Committee collectively has the skills and experience required to fully discharge its duties. The Committee also has access to independent advice at the Company's expense.

Committee responsibilities

The Committee's terms of reference include the following responsibilities:

- to monitor and make recommendations to the Board in respect of the financial reporting process and, prior to their approval by the Board, the integrity of the financial statements of the Company and any other formal announcements relating to its financial performance, including a review of the significant financial reporting judgements that they contain;
- to review and monitor the effectiveness of the internal controls and risk management systems of the Company and its subsidiary companies, and to review any aspect of the Company's internal controls and its internal control and risk management systems;
- to monitor and review annually the effectiveness of the internal audit function;
- to make recommendations to the Board on the appointment, remuneration and terms of engagement of the external auditors, prior to the Board putting the appointment and remuneration of the external auditors to the shareholder for its approval in general meeting;
- to review and monitor the external auditor's independence and objectivity;
- to discuss the scope of the annual audit and half-year review process and any matters arising from them with the external auditors;
- to monitor the statutory audit of the Company's annual and consolidated accounts and to review the effectiveness of the audit process, taking into account relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, bearing in mind any relevant ethical guidance in the UK regarding the provision of non-audit services by the external auditor; and
- to report to the Board identifying any matters in respect of which the Committee considers that action or improvement is required, making recommendations as to the steps to be taken.

The Audit Committee met on three occasions during 2011 and those meetings were attended by all of the Committee members, either in person or by phone. The meetings of the Committee coincide with key dates in the financial reporting and audit cycle. The external auditors, Deloitte LLP, and the Group Head of Internal Audit, who has a direct reporting line to the Audit Committee, attended all of the meetings as did the Group Chief Executive, the Group Chief Financial Officer and the Group Financial Controller by invitation. The Audit Committee has the opportunity to meet privately with the external auditors and the Group Head of Internal Audit at least once a year.

The Audit Committee is entitled to obtain, at the expense to the Company, such external advice as it sees fit on any matters falling within its terms of reference.

Matters considered by the Committee

A summary of matters considered at the Committee since the last Annual Report and actions taken is shown below:

- review of the Group's half year results to 30 June 2011 and full year results to 31 December 2011;
- review of the reports from the external auditor on the interim and full year results to 31 December 2011;
- consideration of accounting issues, changes in accounting standards and their impact on Group reporting;
- review of the scope, nature, resource planning and fee estimate for the full year audit;
- assessment of the going concern basis;
- review of risk management systems, internal controls and fraud procedures;
- review of the reports of the Group Internal Audit department and agreement of the schedule of audits to be completed; and
- review of the terms of reference of the Committee and the Risk Management Committee.

Auditor independence

The Committee has implemented a policy to help ensure the objectivity and independence of the external auditors. This includes limits on the provision of non-audit services by the external auditors as follows:

- the external auditors may not provide certain non-audit services including reviewing their own work, they may not make management decisions, they may not be put in a position of an advocate for the Company and they may not create a mutuality of interest; and
- any non-audit work proposed to be placed with the external auditors with a fee in excess of $200,000 should be referred to the Audit Committee.

During the year the proportion of the fees paid to the external auditors for non-audit work relative to total fees was 21.3% (2010 – 30.6%).

The external auditors have processes in place to safeguard their independence and have written to the Company confirming that they are, in their opinion, independent. The Company appointed its auditors in 2003 and has not reviewed their appointment in the meantime. The external auditors rotate the partner responsible for the Company's audit every seven years; the last occasion was in 2005.

Risk Management Committee

Paul Forman
Risk Management Committee Chairman

"We have made excellent progress in the year making sure we have the right controls and procedures in place to deal with the major risks facing the Company."

The Risk Management Committee assists the Audit Committee in monitoring and reviewing the risks facing the Company. The Risk Management Committee is chaired by the Group Chief Executive, Paul Forman, and its membership includes senior executives including the Company Secretary and the Group Head of Internal Audit together with others such that collectively they have the skills and experience required to fully discharge the Committee's duties.

The main role of the Risk Management Committee is to:

- review and challenge the adequacy of the Company's risk management activities including risk mitigation;
- review and challenge the adequacy of the risk management process and systems in operation including:
  - operation of risk mandates and limits;
  - risk reporting (including significant risk reporting);
  - integrity of relevant data;
  - risks adequately identified and measured; and
  - adequacy of risk mitigation process.
- set standards for risk management processes and techniques, and benchmark against industry best practice on a regular basis; and
- report periodically on these matters to the Audit Committee.

The Risk Management Committee met three times in the year.

Nominations Committee

Gary Weiss
Nominations Committee Chairman

"Establishing the Nominations Committee is an important step forward in bringing our governance up to the level expected in the Code."

Committee membership

The following were members of the Nominations Committee in the year:

		Meeting attendance	
Member	Position	Eligible to attend	Attended
Gary Weiss (Chairman)	Non-Executive Chairman	1	1
Mike Allen	Non-Executive Director	1	1
Simon Heale	Non-Executive Director	1	1
Paul Forman	Group Chief Executive	1	1

The Nominations Committee was established by the Board on 11 October 2011. It is responsible for assisting the Board to discharge its duties with regard to the Company's governance and in particular with:

- appointing new Directors;
- ensuring that they have the appropriate skills or training for the role; and
- periodically evaluating the performance of the Board and its principal committees.

As no Senior Independent Director has as yet been appointed, there is currently no mechanism for the evaluation of the performance of the Chairman.

The full terms of reference of the Nominations Committee are available on request and on the Company's website.

As the Committee was only constituted on 11 October 2011 it did not consider the appointment of any of the Directors appointed in the year. The appointment of Rob Campbell on 20 October 2011 was at the request of Guinness Peat Group plc and so the Committee did not consider his appointment either.

Committee responsibilities

The Committee's terms of reference include the following responsibilities:

- to review the structure, size and composition (including the gender diversity, skills, knowledge and experience) required of the Board compared to its current position regularly and make recommendations to the Board with regard to any changes;
- to give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future;
- to identify and nominate for the approval of the Board, candidates to fill Board vacancies as and when they arise; and
- to evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment before any appointment is made by the Board.

The Committee shall also make recommendations to the Board concerning:

- plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive;
- suitable candidates for the role of Senior Independent Director;
- membership of the Audit and Remuneration Committees, in consultation with the Chairmen of those Committees; and
- the appointment of any Director to Executive or other office.

Directors do not submit themselves for re-election at regular intervals and there are no processes for progressive refreshing of the Board.

Information
The Board meets regularly to perform its duties and is supplied in advance of each meeting with an agenda and papers covering the matters to be considered at the meeting.

The Board met formally six times in the year. The meeting attendance of the members of the Board is shown in the table on page 28.

At its meeting in October the Board had the opportunity to visit one of the factories operated by PT Coats Rejo Indonesia in Bogor.

The scheduled Board meetings concentrate on strategy, financial and business performance. Additional meetings, including of certain ad hoc committees, were called during the year to deal with specific matters.

Conflicts
A Director has a duty under the Companies Act 2006 (the "Act") to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. The Act allows Directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to that effect and the Company's Articles of Association include such provisions. The Board considers each Director's conflicts or potential conflicts of interest. Only Directors that have no interest in the matter under consideration take the relevant decision. In addition, the Board considers each conflict situation separately on its particular facts; considers the conflict situation in conjunction with the rest of a Director's duties under the Act; keeps records and Board minutes as to authorisations granted by Directors and the scope of any approvals given; and regularly reviews conflict authorisations (at least annually). In addition, the Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

Relations with shareholders
The Company maintains good communications with its shareholder Guinness Peat Group plc through regular financial and other reporting and the presence on the Board of its representatives.

Remuneration Committee

Simon Heale
Remuneration Committee Chairman

"Our approach to executive remuneration is to retain the right people with the right skills to achieve our strategy."

Committee membership
The following were members of the Remuneration Committee in the year:

		Meeting attendance	
Member	Position	Eligible to attend	Attended*
Simon Heale (Chairman)**	Non-Executive Director	1	1
Gary Weiss (Chairman)***	Non-Executive Chairman	4	4
Rex Wood-Ward	Non-Executive Director	5	5
Mike Allen***	Non-Executive Director	4	4
Blake Nixon	Non-Executive Director	5	5
Alan Rosling**	Non-Executive Director	1	1
Isabella Loh**	Non-Executive Director	1	1

* Excludes meetings attended by invitation
** Appointed 11 October 2011
*** Resigned 11 October 2011

The Committee is responsible for recommending to the Board the Company's broad policy for executive remuneration, including both short-term and long-term incentive arrangements, and for reviewing, at least annually, the entire remuneration packages of the Group Chief Executive and certain other senior executives of the Company. No Director is involved in any decisions as to his/her own remuneration package, in whole or in part.

The full terms of reference of the Remuneration Committee are available on request and on the Company's website.

The Committee is entitled to obtain, at the expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference.

Committee responsibilities
The Committee's terms of reference include the following responsibilities:

- to establish and agree with the Board the broad policy for the remuneration policy of the Company and the remuneration and benefits packages of its Directors and Senior Executives;
- to determine the total individual remuneration package for each Executive Director and Senior Executive, including (where appropriate) bonuses, incentive payments, pension arrangements and share options;
- to agree allocations under the Group's Long Term Incentive Plans from time to time, and to determine targets for any performance-related pay schemes operated by the Company for its directors and/or staff;
- to be concerned generally that the salary, benefit and incentive levels throughout the Group are sufficiently competitive to attract and retain directors and staff, particularly those holding key positions of responsibility; and
- to ensure that, in determining such packages and arrangements, the Company complies with its statutory and/or regulatory obligations as they refer to the Remuneration Committee and to remuneration policy from time to time, and to report to the Board as necessary.

The Directors present their report and the financial statements for the year ended 31 December 2011.

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 N 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 on page 10 and Business review on pages 12 to 14 and the Operating review on pages 16 to 19, which form part of this Directors' report. The Corporate governance statement on pages 27 to 31 and the Corporate Responsibility statement on pages 20 to 23 also form part of this Directors' report.

Going concern
The Directors' consideration of the going concern assumption is discussed on page 40.

Results and dividends
The results of the Group for the year are set out in the Consolidated income statement on page 35.

The Directors do not recommend the payment of a dividend (2010 – nil).

Directors
Gary Weiss, Paul Forman, Blake Nixon, Mike Allen and Rex Wood-Ward all served as Directors throughout the year. Simon Heale was appointed as a Director on 2 June 2011, Isabella Loh was appointed as a Director on 13 June 2011, Alan Rosling was appointed as a Director on 16 August 2011 and Rob Campbell was appointed as a Director on 20 October 2011.

Employment practices
Details of the Group's employment practices are set out in the Corporate Responsibility statement on pages 20 to 23.

Research and development
During the year our new R&D structure and project management system were implemented successfully. We launched a number of new R&D projects, aimed at added value products for industrial market segments, as well as continuing to develop our proprietary colour management systems. Three projects emerging from our development activities were completed and launched commercially during the year, one focused on a new coating technology, the others being our Coats Fusion thread and our security thread, Coats Verifi. During 2012 further new products will be brought to market as well as initiating new development projects.

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 2011 were equivalent to 72 (2010 – 72) 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 accounts.

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, normally from age 55 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 $67,000 (2010 – $12,000) were made to charities during the year to UK and Overseas recipients.

Auditor
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 auditor is 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 auditor is 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 auditor and to authorise the Directors to agree their remuneration will be proposed at the Annual General Meeting.

Directors' responsibilities statement
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 judgements 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
30 March 2012

Independent auditor's report to the members of Coats plc

We have audited the Group financial statements of Coats plc for the year ended 31 December 2011 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.

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 auditor's 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 Auditor
As explained more fully in the Directors' responsibilities statement, 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 and express an opinion on 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 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.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
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 2011 and of the Group's profit 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
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of 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 (equivalent to $142.8 million at 31 December 2011 exchange rates) against the Coats plc Group in relation to these allegations against which the Coats plc Group 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
We have nothing to report in respect of the following:

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

- 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.

Other matter
We have reported separately on the Parent Company financial statements of Coats plc for the year ended 31 December 2011.

Peter O'Donoghue FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 March 2012

Consolidated income statement

For the year ended 31 December 2011	Notes	2011 Before exceptional items $m	2011 Exceptional items (see note 5) $m	2011 Total $m	2010 Before exceptional items $m	2010 Exceptional items (see note 5) $m	2010 Total $m
Continuing operations							
Revenue	4	**1,701.6**	**–**	**1,701.6**	1,583.6	–	1,583.6
Cost of sales		**(1,087.9)**	**(16.1)**	**(1,104.0)**	(990.0)	(20.4)	(1,010.4)
Gross profit		**613.7**	**(16.1)**	**597.6**	593.6	(20.4)	573.2
Distribution costs		**(289.9)**	**–**	**(289.9)**	(270.7)	–	(270.7)
Administrative expenses		**(180.2)**	**1.4**	**(178.8)**	(190.9)	–	(190.9)
Other operating income	4	**–**	**2.7**	**2.7**	0.3	6.1	6.4
Operating profit	5 & 6	**143.6**	**(12.0)**	**131.6**	132.3	(14.3)	118.0
Share of profits of joint ventures		**2.1**	**–**	**2.1**	0.4	–	0.4
Investment income	8	**7.3**	**–**	**7.3**	4.7	–	4.7
Finance income/(costs)	9	**(16.8)**	**56.5**	**39.7**	(15.7)	(26.0)	(41.7)
Profit before taxation		**136.2**	**44.5**	**180.7**	121.7	(40.3)	81.4
Taxation	10	**(47.7)**	**2.1**	**(45.6)**	(44.5)	2.3	(42.2)
Profit from continuing operations		**88.5**	**46.6**	**135.1**	77.2	(38.0)	39.2
Discontinued operations							
Loss from discontinued operations	11	**(1.8)**	**–**	**(1.8)**	–	–	–
Profit for the year		**86.7**	**46.6**	**133.3**	77.2	(38.0)	39.2
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY	28	**81.1**	**46.6**	**127.7**	71.5	(37.6)	33.9
Non-controlling interests		**5.6**	**–**	**5.6**	5.7	(0.4)	5.3
		86.7	**46.6**	**133.3**	77.2	(38.0)	39.2

Consolidated statement of comprehensive income

For the year ended 31 December 2011	Notes	**2011 $m**	2010 $m
Profit for the year		**133.3**	39.2
Cash flow hedges:			
Losses arising during the year		**(7.5)**	(7.0)
Transferred to profit or loss on cash flow hedges		**6.2**	7.0
Exchange differences on translation of foreign operations		**(36.7)**	8.1
Acquisition of part of a non-controlling interest		**–**	0.1
Actuarial losses in respect of retirement benefit schemes	33	**(299.3)**	(26.6)
Tax relating to components of other comprehensive income	24	**(0.1)**	(0.3)
Other comprehensive income and expense for the year		**(337.4)**	(18.7)
Total comprehensive income and expense for the year	29	**(204.1)**	20.5
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		**(209.3)**	15.2
Non-controlling interests		**5.2**	5.3
		(204.1)	20.5

Consolidated statement of financial position

At 31 December 2011	Notes	2011 $m	2010 $m
Non-current assets			
Intangible assets	12	**256.1**	258.2
Property, plant and equipment	13	**393.4**	425.1
Investments in joint ventures and associates	15	**16.1**	13.7
Available-for-sale investments	20	**2.7**	2.9
Deferred tax assets	24	**13.5**	13.7
Pension surpluses	33	**30.7**	49.1
Trade and other receivables	17	**14.6**	18.5
		727.1	781.2
Current assets			
Inventories	16	**316.7**	304.0
Trade and other receivables	17	**301.2**	314.8
Current income tax assets		**4.5**	4.9
Available-for-sale investments	20	**1.0**	0.2
Cash and cash equivalents	30	**112.0**	141.8
		735.4	765.7
Non-current assets classified as held for sale	11	**0.1**	2.5
Total assets		**1,462.6**	1,549.4
Current liabilities			
Trade and other payables	18	**(347.4)**	(362.4)
Current income tax liabilities		**(7.9)**	(9.0)
Bank overdrafts and other borrowings	19	**(60.9)**	(113.7)
Provisions	22	**(97.8)**	(108.2)
		(514.0)	(593.3)
Net current assets		**221.4**	172.4
Non-current liabilities			
Amounts owed to parent undertaking (subordinated and convertible)	23	**(133.3)**	(199.2)
Trade and other payables	18	**(18.0)**	(17.6)
Deferred tax liabilities	24	**(39.3)**	(33.8)
Borrowings	19	**(289.5)**	(270.0)
Retirement benefit obligations:			
– Funded schemes	33	**(243.5)**	(1.2)
– Unfunded schemes	33	**(84.3)**	(87.0)
Provisions	22	**(25.8)**	(35.7)
		(833.7)	(644.5)
Total liabilities		**(1,347.7)**	(1,237.8)
Net assets		**114.9**	311.6
Equity			
Share capital	25	**137.9**	137.9
Equity reserve	26	**153.1**	141.1
Hedging and translation reserves	27	**(21.2)**	16.4
Retained loss	28	**(172.8)**	(1.1)
EQUITY SHAREHOLDERS' FUNDS	29	**97.0**	294.3
Non-controlling interests	29	**17.9**	17.3
Total equity	29	**114.9**	311.6

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 30 March 2012.

They were signed on its behalf by:

Blake Nixon
Director
30 March 2012

Consolidated statement of changes in equity

	Notes	Share capital $m	Equity reserve $m	Hedging reserve $m	Translation reserve $m	Retained loss $m	Total $m
Balance as at 1 January 2010		137.9	141.1	(8.8)	17.1	(8.2)	279.1
Profit for the year		–	–	–	–	33.9	33.9
Other comprehensive income and expense for the year		–	–	–	8.1	(26.8)	(18.7)
Total comprehensive income and expense for the year		–	–	–	8.1	7.1	15.2
Balance as at 31 December 2010		137.9	141.1	(8.8)	25.2	(1.1)	294.3
Profit for the year		–	–	–	–	127.7	127.7
Other comprehensive income and expense for the year		–	–	(1.3)	(36.3)	(299.4)	(337.0)
Total comprehensive income and expense for the year		–	–	(1.3)	(36.3)	(171.7)	(209.3)
Increase in equity component of amounts owed to parent undertaking (subordinated and convertible)	23	–	9.4	–	–	–	9.4
Contribution from parent in respect of capital incentive plan	7	–	2.6	–	–	–	2.6
Balance as at 31 December 2011		**137.9**	**153.1**	**(10.1)**	**(11.1)**	**(172.8)**	**97.0**

Consolidated statement of cash flows

For the year ended 31 December 2011	Notes	2011 $m	2010 $m
Cash inflow/(outflow) from operating activities			
Net cash inflow generated by operations	30	**134.0**	94.2
Interest paid		**(20.5)**	(22.9)
Taxation paid		**(40.2)**	(32.6)
Net cash generated from operating activities		**73.3**	38.7
Cash inflow/(outflow) from investing activities			
Dividends received from associates and joint ventures		**0.8**	0.9
Acquisition of property, plant and equipment and intangible assets		**(50.5)**	(36.5)
Disposal of property, plant and equipment and intangible assets		**2.0**	17.6
Acquisition of financial investments		**(0.9)**	–
Disposal of financial investments		**–**	0.1
Acquisition of businesses	30	**(1.1)**	(0.2)
Disposal of subsidiaries	30	**(1.0)**	(0.9)
Net cash absorbed in investing activities		**(50.7)**	(19.0)
Cash outflow from financing activities			
Dividends paid to non-controlling interests		**(4.6)**	(3.5)
Decrease in debt and lease financing		**(36.3)**	(16.8)
Net cash absorbed in financing activities		**(40.9)**	(20.3)
Net decrease in cash and cash equivalents		**(18.3)**	(0.6)
Net cash and cash equivalents at beginning of the year		**115.5**	112.7
Foreign exchange (losses)/gains on cash and cash equivalents		**(11.6)**	3.4
Net cash and cash equivalents at end of the year	30	**85.6**	115.5

Reconciliation of net cash flow to movement in net debt			
Net decrease in cash and cash equivalents		**(18.3)**	(0.6)
Cash outflow from change in debt and lease financing		**36.3**	16.8
Change in net debt resulting from cash flows		**18.0**	16.2
Other		**(4.5)**	(2.9)
Foreign exchange		**(10.0)**	3.3
Decrease in net debt		**3.5**	16.6
Net debt at start of year		**(241.9)**	(258.5)
Net debt at end of year	30	**(238.4)**	(241.9)

Notes to the consolidated accounts

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

From the year beginning 1 January 2012:

IFRS 7 (as amended) – Disclosures – transfers of financial assets; and
IAS 12 (as amended) – Deferred Tax – recovery of underlying assets.

From the year beginning 1 January 2013:

IFRS 9 – Financial Instruments;
IFRS 10 – Consolidated Financial Statements;
IFRS 11 – Joint Arrangements;
IFRS 12 – Disclosures of Interests in Other Entities;
IFRS 13 – Fair Value Measurement;
IAS 1 (as amended) – Presentation of Items of Other Comprehensive Income;
IAS 19 (as amended) – Employee Benefits;
IAS 27 – Separate Financial Statements; and
IAS 28 – Investments in Associates and Joint Ventures.

Other than IAS 19, the adoption of the above Standards in future periods is not expected to have a material impact on the financial statements of the Group. IAS 19 will impact the measurement of the various components which represent movements in defined benefit obligations and associated disclosures, but not the Group's total defined benefit obligations. The replacement of expected returns on plan assets with a net finance cost is expected to adversely impact profits in the income statement, with a corresponding increase in other comprehensive income.

(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 on page 10, the Business review on pages 12 to 14, the Operating review on pages 16 to 19 and the Directors' report on pages 32 and 33.

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

(ii) 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.

2. Principal accounting policies (continued)

(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. Acquisition related costs are expensed as incurred. 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 period end. All currency differences are taken to the income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the income statement.

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

(ii) On consolidation

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

The assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the period end 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:

		2011	2010
Average	Sterling	**0.62**	0.65
	Euro	**0.72**	0.75
Year end	Sterling	**0.64**	0.64
	Euro	**0.77**	0.75

(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.

2. Principal accounting policies (continued)

(f) Property, plant and equipment (continued)

(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:	
Freehold and long leasehold buildings	2%
Short leasehold property	over period lease
Fixtures and equipment:	
Motor vehicles	20%
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 year end.

(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 five years.

(iv) Research and development

All research costs are expensed as they are incurred.

An internally generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be separately identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their estimated useful lives.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as 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.

2. Principal accounting policies (continued)

(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.

(k) Employee benefits

(i) Retirement and other post-employment obligations

The retirement and other post-employment benefit obligations recognised in the statement of financial position in respect of defined benefit plans are the present value of the defined benefit obligations at the year end 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) Equity-settled share-based compensation

The Group has employees who participate in a compensation plan operated by the Group's parent undertaking which is accounted for as an equity-settled compensation plan as the Group has no obligation to settle the share-based payment. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant dates of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the ultimate settlement value and adjusted for the effect of non market-based vesting conditions, with a corresponding increase recognised in equity as a contribution from the parent.

(iii) Non-share-based long-term incentive schemes

The anticipated present value cost of non-share-based long-term incentive schemes is charged to the income statement on a straight-line basis over the period the benefit is earned, based on remuneration rates that are expected to be payable.

(iv) 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.

(v) Other 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 period end, and are discounted to present value where the effect is material.

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

2. Principal accounting policies (continued)

(m) Taxation

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

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

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

Deferred tax is provided using the 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 year end. 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 when the Group becomes a party to the contractual provisions of the relevant financial 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 the fair value of 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.

(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 and October 2011, the dates of substantial modifications 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 the substantial modification in June 2008 and October 2011, included in non-current liabilities, was calculated using a discounted cash flow analysis of future cash flows, applying an effective interest rate of 15% which the Group considered was a comparable rate based on prevailing market rates for similar non-convertible instruments at the date of the substantial modification. The liability component is accounted for on an amortised cost basis.

2. Principal accounting policies (continued)

(o) Financial instruments (continued)

(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.

(p) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position 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 judgements and key sources of estimation uncertainty

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

(i) Goodwill

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

(ii) Pension and other post-employment obligations

The retirement benefit obligations recognised in the statement of financial position in respect of defined benefit pension plans are the present value of the defined benefit obligations at the year end 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 or all of these assumptions could materially change the retirement benefit obligations recognised in the statement of financial position. A sensitivity analysis relating to the Group's major defined benefit pension arrangements is included in note 33.

(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 (equivalent to $142.8 million at 31 December 2011 exchange rates) was imposed against the Coats plc Group 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 2011 $m	Year ended 31 December 2010 $m
Sales of goods – continuing operations	**1,701.6**	1,583.6
Investment income (note 8)	**7.3**	4.7
Other income	**–**	0.3
	1,708.9	1,588.6
Other operating income as reported in the consolidated income statement includes:		
Profit on the sale of property	**2.7**	6.1
Other income (as above)	**–**	0.3
	2.7	6.4

A geographical analysis of the Group's revenue of $1,701.6 million (2010 – $1,583.6 million) is provided on page 12.

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 2011 $m	Year ended 31 December 2010 $m
Cost of sales:		
Reorganisation costs and impairment of property, plant and equipment and computer software	**14.6**	19.8
US environmental costs (note 31)	**2.5**	2.5
Foreign exchange gains	**(1.0)**	(1.9)
	16.1	20.4
Administrative expenses:		
UK pension exchange increase offer (note 33)	**(4.0)**	–
Capital incentive plan charge (note 7)	**2.6**	–
	(1.4)	–
Other operating income:		
Profit on the sale of property	**(2.7)**	(6.1)
Finance (income)/costs:		
Notional interest (credit)/charge on amounts owed to parent undertaking (subordinated and convertible) (note 23)	**(56.5)**	26.0
Taxation on exceptional items	**(2.1)**	(2.3)
	(46.6)	38.0

6. Operating profit

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

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Depreciation of property, plant and equipment	**49.0**	50.1
Amortisation of computer software included in administrative expenses	**7.6**	8.5
Amortisation of computer software included in cost of sales	**0.4**	0.3
Research and development expenditure	**1.0**	0.6
Cost of inventories recognised as an expense	**650.2**	571.8
Net foreign exchange losses/(gains)	**4.3**	(0.2)
Auditors' remuneration (see note below)	**3.4**	3.6
Note		
Total auditors' remuneration on a worldwide basis is as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.3
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**	2.2
Services relating to taxation:		
– Advisory	**0.3**	0.3
– Compliance	**0.1**	0.1
All other services	**0.4**	0.7
	3.4	3.6

7. Staff costs

The average monthly number of employees was:

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Continuing operations:		
Direct	**13,085**	13,178
Indirect	**3,298**	2,771
Other staff	**5,796**	5,802
	22,179	21,751
Comprising:		
Continuing operations:		
UK	**223**	219
Overseas	**21,956**	21,532
	22,179	21,751
The total numbers employed at the end of the year were:		
Continuing operations:		
UK	**226**	211
Overseas	**21,960**	21,944
	22,186	22,155

7. Staff costs (continued)

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Their aggregate remuneration comprised:		
Continuing operations:		
Wages and salaries	**331.7**	314.3
Social security costs	**41.9**	41.0
Other pension costs (note 33)	**11.9**	16.3
	385.5	371.6

The Company and the Group accounts include a charge for the year of nil (2010 – $5.6 million) and a liability as at 31 December 2011 of $5.6 million (2010 – $5.6 million) for compensation payable under the Group's long-term incentive scheme.

The Company and the Group accounts include a charge of $2.6 million (2010 – nil) in respect of the capital incentive plan. The capital incentive plan is an arrangement of the Group's parent undertaking for the benefit of certain senior executives of the Group. The plan is accounted for as an equity-settled compensation plan as the Group has no obligation to settle the share-based payment. A corresponding increase of $2.6 million (2010 – nil) has been recognised in equity as a contribution from the parent. Awards were granted by the Group's parent undertaking on 16 May 2011 and are currently assumed to vest in March 2014. The fair value of the ultimate settlement was estimated at $12.0 million at the date of grant and this charge is being recognised over the assumed vesting period.

8. Investment income

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Interest receivable and similar income	**6.1**	3.5
Income from other investments	**1.2**	1.2
	7.3	4.7

9. Finance (income)/costs

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Non-exceptional items		
Interest on bank loans and overdrafts	**23.5**	22.4
Interest on other borrowings	**0.3**	1.2
Net return on pension scheme assets and liabilities (note 33)	**(16.9)**	(14.0)
Unwinding of discounts on provisions	**0.6**	0.7
Net losses/(gains) on derivatives held at fair value through income statement	**1.8**	(1.3)
Other	**7.5**	6.7
	16.8	15.7
Exceptional items		
Notional interest (credit)/charge on amounts owed to parent undertaking (subordinated and convertible) (note 23)	**(56.5)**	26.0
Total finance (income)/costs	**(39.7)**	41.7

10. Taxation

	$m	Year ended 31 December 2011 $m	$m	Year ended 31 December 2010 $m
UK taxation based on profit for the year:				
Corporation tax at 26.5% (2010 – 28%)		**3.5**		3.7
Double taxation relief		**(3.5)**		(3.7)
Total UK taxation		**–**		–
Overseas taxation:				
Current taxation		**40.4**		35.8
Deferred taxation (note 24)		**5.4**		6.9
		45.8		42.7
Prior year adjustments:				
Current taxation	**(1.1)**		–	
Deferred taxation (note 24)	**0.9**		(0.5)	
		(0.2)		(0.5)
		45.6		42.2

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

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

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Profit before taxation	**180.7**	81.4
Tax at the UK corporation tax rate of 26.5% (2010 – 28%)	**47.9**	22.8
Adjusted for the effects of:		
Adjustments in respect of prior years	**(0.2)**	(0.5)
Deferred tax benefit not provided	**10.8**	15.2
Expenses not deductible for tax purposes	**5.5**	10.7
Withholding tax on remittances	**6.6**	5.1
Utilisation of brought forward losses not previously recognised	**(1.1)**	(2.2)
Higher/(lower) rates of tax on overseas earnings	**0.9**	(3.3)
Income not liable to taxation	**(18.3)**	(2.9)
Other	**(6.5)**	(2.7)
	45.6	42.2

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

The results of discontinued operations are as follows:

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Expenses, including lease related amounts, attributable to discontinued operations	**(2.0)**	(1.2)
Profit on disposal of properties from discontinued operations	**0.2**	1.2
Net loss attributable to discontinued operations	**(1.8)**	–

Non-current assets classified as held for sale of $0.1 million (2010 – $2.5 million) consist of surplus properties in both the current and prior years.

12. Intangible assets

	Goodwill $m	Brands $m	Computer software $m	Total $m
Cost				
At 1 January 2010	237.0	7.0	79.3	323.3
Exchange difference	–	0.1	(1.6)	(1.5)
Additions	–	–	3.0	3.0
Disposals	–	–	(2.9)	(2.9)
At 31 December 2010	237.0	7.1	77.8	321.9
At 1 January 2011	**237.0**	**7.1**	**77.8**	**321.9**
Exchange difference	**–**	**–**	**(3.1)**	**(3.1)**
Additions	**–**	**–**	**6.3**	**6.3**
Disposals	**–**	**–**	**(3.7)**	**(3.7)**
At 31 December 2011	**237.0**	**7.1**	**77.3**	**321.4**
Amortisation and impairment				
At 1 January 2010	0.1	0.5	58.0	58.6
Exchange difference	–	–	(1.3)	(1.3)
Charge for the year	–	–	8.8	8.8
Impairment	–	–	0.5	0.5
Disposals	–	–	(2.9)	(2.9)
At 31 December 2010	0.1	0.5	63.1	63.7
At 1 January 2011	**0.1**	**0.5**	**63.1**	**63.7**
Exchange difference	**–**	**–**	**(2.7)**	**(2.7)**
Charge for the year	**–**	**–**	**8.0**	**8.0**
Disposals	**–**	**–**	**(3.7)**	**(3.7)**
At 31 December 2011	**0.1**	**0.5**	**64.7**	**65.3**
Net book value				
At 31 December 2011	**236.9**	**6.6**	**12.6**	**256.1**
At 31 December 2010	236.9	6.6	14.7	258.2

At 31 December 2011 the carrying amount of the Group's computer software included an amount of $0.1 million (2010 – $0.2 million) in respect of assets held under finance leases.

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

The recoverable amounts of goodwill and brands have been estimated on a value in use basis using cash flow projections derived from recent budgets and forecasts covering the period to 31 December 2014, applying a pre-tax weighted average cost of capital of 12% (2010 – 15%) 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 35% (2010 – 19%) 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 2010	240.7	899.8	1,140.5
Exchange difference	(1.9)	2.3	0.4
Additions	2.9	35.4	38.3
Reclassifications to non-current assets held for sale	(22.0)	–	(22.0)
Other reclassifications	(0.2)	0.2	–
Disposals	–	(39.8)	(39.8)
At 31 December 2010	219.5	897.9	1,117.4
At 1 January 2011	**219.5**	**897.9**	**1,117.4**
Exchange difference	**(14.5)**	**(53.7)**	**(68.2)**
Additions	**6.4**	**40.9**	**47.3**
Reclassifications from non-current assets held for sale	**0.3**	**–**	**0.3**
Disposals	**–**	**(29.4)**	**(29.4)**
At 31 December 2011	**211.7**	**855.7**	**1,067.4**
Accumulated depreciation and impairment			
At 1 January 2010	100.0	595.8	695.8
Exchange difference	(1.4)	(0.8)	(2.2)
Charge for the year	6.2	43.9	50.1
Impairment	–	0.5	0.5
Other reclassifications	(14.1)	0.3	(13.8)
Disposals	–	(38.1)	(38.1)
At 31 December 2010	90.7	601.6	692.3
At 1 January 2011	**90.7**	**601.6**	**692.3**
Exchange difference	**(5.2)**	**(36.1)**	**(41.3)**
Charge for the year	**6.4**	**42.6**	**49.0**
Impairment	**–**	**2.1**	**2.1**
Reclassifications from non-current assets held for sale	**0.2**	**–**	**0.2**
Disposals	**–**	**(28.3)**	**(28.3)**
At 31 December 2011	**92.1**	**581.9**	**674.0**
Net book value			
At 31 December 2011	**119.6**	**273.8**	**393.4**
At 31 December 2010	128.8	296.3	425.1

The carrying amount of the Group's fixtures and equipment includes an amount of $0.1 million (2010 – $0.1 million) in respect of assets held under finance leases.

Property, plant and equipment with a net book value of $8.2 million (2010 – $8.7 million) has been pledged to secure borrowings of the Group (see note 21).

As at 31 December 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $2.2 million (2010 – $4.4 million).

14. Subsidiaries

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

15. Investments in joint ventures and associates

	$m
Cost	
At 1 January 2010 and 31 December 2010	13.6
At 1 January 2011	**13.6**
Additions	**1.1**
At 31 December 2011	**14.7**
Share of profits retained	
At 1 January 2010	0.6
Share of profits for the year	0.4
Dividends paid	(0.9)
At 31 December 2010	0.1
At 1 January 2011	**0.1**
Share of profits for the year	**2.1**
Dividends paid	**(0.8)**
At 31 December 2011	**1.4**
Net book value	
At 31 December 2011	**16.1**
At 31 December 2010	13.7

During the year the Group acquired a 50% shareholding in Coats VTT Limited for a consideration of $1.1 million.

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

	2011 $m	2010 $m
Total assets	**50.5**	59.1
Total liabilities	**(19.0)**	(31.7)
Revenues	**59.7**	62.5
Profit after taxation	**3.5**	0.8

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

16. Inventories

	2011 $m	2010 $m
Raw materials	**99.2**	71.5
Work-in-progress	**63.2**	79.8
Finished goods	**154.3**	152.7
	316.7	304.0

As at 31 December 2011, inventories of $2.0 million (2010 – $0.6 million) had been pledged to secure the borrowings of the Group (see note 21).

17. Trade and other receivables

	2011 $m	2010 $m
Non-current assets		
Taxation recoverable	**1.4**	1.2
Derivative financial instruments	**–**	2.1
Other receivables	**13.2**	15.2
	14.6	18.5
Current assets		
Trade receivables	**242.0**	261.6
Due from joint ventures and associates	**3.3**	1.0
Prepayments and accrued income	**12.3**	14.9
Derivative financial instruments	**2.5**	4.7
Pension surpluses	**4.9**	2.4
Other receivables	**36.2**	30.2
	301.2	314.8

The ageing of overdue trade receivables is as follows:

	2011 $m	2010 $m
Amounts due up to one month beyond trade credit period	**27.5**	23.0
Amounts due between one and two months beyond trade credit period	**7.8**	6.8
Amounts due between two and three months beyond trade credit period	**3.3**	3.3
Amounts due between three and six months beyond trade credit period	**5.0**	4.0
Amounts due more than six months beyond trade credit period	**14.2**	17.0
Gross amounts due beyond trade credit period	**57.8**	54.1
Provisions	**(16.3)**	(19.8)
Amounts due beyond trade credit period net of provisions	**41.5**	34.3
Trade receivables within credit period	**201.0**	228.0
Trade receivables	**242.5**	262.3
Included in non-current assets	**0.5**	0.7
Included in current assets	**242.0**	261.6
	242.5	262.3

Movements in provisions:	2011 $m	2010 $m
At 1 January	**19.8**	22.9
Exchange difference	**(1.1)**	(0.5)
Amounts charged to the consolidated income statement	**1.3**	0.8
Utilised	**(3.7)**	(3.4)
At 31 December	**16.3**	19.8

17. Trade and other receivables (continued)

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

	2011 $m	2010 $m
Fair value through the income statement:		
Foreign exchange contracts	**2.5**	4.7
Cash flow hedges:		
Interest rate swaps	**–**	2.1
	2.5	6.8

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

	2011 $m	2010 $m
Current liabilities		
Trade creditors	**222.7**	231.3
Amounts due to parent undertaking	**–**	0.5
Due to joint ventures and associates	**12.8**	11.6
Other taxes and social security payable	**10.4**	6.2
Accruals and deferred income	**58.9**	75.0
Derivative financial instruments	**9.4**	6.6
Other creditors	**33.2**	31.2
	347.4	362.4
Non-current liabilities		
Tax liabilities	**11.9**	11.7
Derivative financial instruments	**5.4**	5.9
Other creditors	**0.7**	–
	18.0	17.6

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

	2011 $m	2010 $m
Fair value through the income statement:		
Foreign exchange contracts	**4.7**	1.6
Cash flow hedges:		
Interest rate swaps	**10.1**	10.9
	14.8	12.5

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

	2011 $m	2010 $m
Bank overdrafts	**26.4**	26.3
Loans	**323.9**	357.2
Obligations under finance leases	**0.1**	0.2
	350.4	383.7

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

On demand or within one year	**60.9**	113.7
In the second year	**–**	39.4
In the third to fifth years inclusive	**288.9**	228.7
After five years	**0.6**	1.9
	350.4	383.7
Less: amount due for settlement within one year (shown under current liabilities)	**(60.9)**	(113.7)
Amount due for settlement after more than one year	**289.5**	270.0

The obligations under finance leases are payable as follows:

	2011		2010	
	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	**0.1**	**0.1**	0.1	0.1
	0.1	**0.1**	0.2	0.2
Less: Amount due for settlement within one year (shown under current liabilities)		**–**		(0.1)
Amount due for settlement after more than one year		**0.1**		0.1

Analysis of borrowings by currency

At 31 December 2011	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Bank overdrafts	**15.4**	**4.1**	**1.2**	**5.7**	**26.4**
Loans	**303.1**	**2.7**	**–**	**18.1**	**323.9**
Obligations under finance leases	**–**	**–**	**–**	**0.1**	**0.1**
	318.5	**6.8**	**1.2**	**23.9**	**350.4**

At 31 December 2010	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Bank overdrafts	12.5	2.4	1.0	10.4	26.3
Loans	320.9	2.2	20.6	13.5	357.2
Obligations under finance leases	–	–	0.1	0.1	0.2
	333.4	4.6	21.7	24.0	383.7

19. Bank overdrafts and other borrowings (continued)

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:

At 31 December 2011	**In one year or less $m**	**In two to five years $m**	**Total $m**
Bank overdrafts	**26.4**	**–**	**26.4**
Loans	**323.9**	**–**	**323.9**
Obligations under finance leases	**–**	**0.1**	**0.1**
Total borrowings	**350.3**	**0.1**	**350.4**
Effect of interest rate swaps (note 21)	**(145.0)**	**145.0**	**–**
	205.3	**145.1**	**350.4**

At 31 December 2010	In one year or less $m	In two to five years $m	Total $m
Bank overdrafts	26.3	–	26.3
Loans	357.2	–	357.2
Obligations under finance leases	0.1	0.1	0.2
Total borrowings	383.6	0.1	383.7
Effect of interest rate swaps (note 21)	(190.0)	190.0	–
	193.6	190.1	383.7

The effective interest rates (including the effect of interest rate swaps) at the year end were as follows:

	2011 %	2010 %
Bank overdrafts	**5.5**	7.0
Loans	**4.8**	4.2

Loans of $323.9 million (2010 – $336.6 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 $190.0 million (2010 – $210.0 million) as set out in note 21.

At 31 December 2010 loans of $20.6 million were at fixed interest rates and exposed the Group to fair value interest rate risk. These loans represented preference shares which were classified as debt. The preference shares were redeemed during the year ended 31 December 2011.

20. Financial assets and liabilities

Financial assets

The Group's financial assets are summarised below:

	2011 $m	2010 $m
Financial assets carried at cost (loans and receivables):		
Cash and cash equivalents	**112.0**	141.8
Trade receivables (note 17)	**242.5**	262.3
Other receivables	**13.9**	13.1
	368.4	417.2
Financial assets carried at fair value through profit or loss:		
Derivative financial instruments (note 17)	**2.5**	4.7
Other financial assets carried at fair value:		
Derivative financial instruments (note 17)	**–**	2.1
Available-for-sale investments	**3.7**	3.1
Total financial assets	**374.6**	427.1

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

20. Financial assets and liabilities (continued)

Analysis of financial assets excluding derivatives by currency

At 31 December 2011	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Cash and cash equivalents	**28.2**	**4.9**	**–**	**78.9**	**112.0**
Trade receivables	**76.0**	**45.4**	**6.2**	**114.9**	**242.5**
Other receivables	**5.9**	**1.1**	**0.8**	**6.1**	**13.9**
Available-for-sale investments	**0.1**	**2.0**	**–**	**1.6**	**3.7**
	110.2	**53.4**	**7.0**	**201.5**	**372.1**

At 31 December 2010	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Cash and cash equivalents	26.0	7.1	0.1	108.6	141.8
Trade receivables	80.1	48.3	6.7	127.2	262.3
Other receivables	3.6	1.0	1.0	7.5	13.1
Available-for-sale investments	0.1	2.1	–	0.9	3.1
	109.8	58.5	7.8	244.2	420.3

Currency profile of foreign exchange derivatives

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

	2011 Receivable $m	2011 Payable $m	2010 Receivable $m	2010 Payable $m
US dollars	**62.9**	**134.8**	59.5	129.1
Euro	**61.7**	**46.0**	33.4	62.4
Sterling	**27.9**	**–**	47.5	–
Other	**51.1**	**25.0**	74.5	20.3
	203.6	**205.8**	214.9	211.8

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

At 31 December 2011	Floating rate $m	Non-interest bearing $m	Total $m
Cash and cash equivalents	**104.0**	**8.0**	**112.0**
Available-for-sale investments	**1.6**	**2.1**	**3.7**
	105.6	**10.1**	**115.7**

At 31 December 2010	Floating rate $m	Non-interest bearing $m	Total $m
Cash and cash equivalents	129.8	12.0	141.8
Available-for-sale investments	1.7	1.4	3.1
	131.5	13.4	144.9

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

20. Financial assets and liabilities (continued)

Financial liabilities

The Group's financial liabilities are summarised below:

	2011 $m	2010 $m
Financial liabilities carried at amortised cost:		
Trade creditors (note 18)	**222.7**	231.3
Other creditors	**19.6**	22.5
Bank overdrafts and other borrowings (note 19)	**350.4**	383.7
Provisions	**11.9**	12.8
	604.6	650.3
Financial liabilities carried at fair value through profit or loss:		
Derivative financial instruments (note 18)	**4.7**	1.6
Other financial liabilities carried at fair value:		
Derivative financial instruments (note 18)	**10.1**	10.9
Total financial liabilities	**619.4**	662.8

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

Analysis of financial liabilities excluding derivatives by currency

At 31 December 2011	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Trade creditors	**107.6**	**25.7**	**4.4**	**85.0**	**222.7**
Other creditors	**8.5**	**5.7**	**–**	**5.4**	**19.6**
Provisions	**–**	**–**	**11.9**	**–**	**11.9**
	116.1	**31.4**	**16.3**	**90.4**	**254.2**

At 31 December 2010	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Trade creditors	105.2	22.8	4.2	99.1	231.3
Other creditors	8.0	5.1	0.3	9.1	22.5
Provisions	–	–	12.8	–	12.8
	113.2	27.9	17.3	108.2	266.6

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

21. Treasury policy

Financial risk management

As a result of its multinational 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 2011, the facility totalled $760.0 million (2010 – $545.0 million) of which nil (2010 – $37.0 million) expires within one year, nil (2010 – $37.0 million) expires between one and two years and $760.0 million (2010 – $471.0 million) expires between two and five years.

As at 31 December 2011, bank overdrafts and loans of $8.2 million (2010 – $8.7 million) are secured on property, plant and equipment and $2.0 million (2010 – $0.6 million) are secured on inventories. $314.7 million of bank overdrafts and loans as at 31 December 2011 (2010 – $351.3 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 years ended 31 December 2011 and 2010 no amounts were assigned under this agreement.

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.

21. Treasury policy (continued)

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:

	2011 $m	2010 $m
On demand or within one year	**317.0**	378.2
In the second year	**7.5**	47.9
In the third to fifth years inclusive	**293.1**	228.4
After five years	**5.5**	12.5
	623.1	667.0

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:

	2011 Receivable $m	**2011 Payable $m**	2010 Receivable $m	2010 Payable $m
On demand or within one year	**204.4**	**210.3**	212.2	222.4
In the second year	**0.6**	**3.7**	–	4.2
In the third to fifth years inclusive	**–**	**3.0**	2.0	1.2
	205.0	**217.0**	214.2	227.8

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 included in the statement of financial position, 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 2011	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Functional currency					
US dollars	**–**	**(50.9)**	**15.9**	**20.5**	**(14.5)**
Euro	**(3.3)**	**–**	**0.2**	**3.5**	**0.4**
Sterling	**0.1**	**0.3**	**–**	**–**	**0.4**
Other	**(33.2)**	**6.1**	**(0.6)**	**(7.0)**	**(34.7)**
	(36.4)	**(44.5)**	**15.5**	**17.0**	**(48.4)**

At 31 December 2010	US dollars $m	Euro $m	Sterling $m	Other $m	Total $m
Functional currency					
US dollars	–	(75.7)	39.1	30.3	(6.3)
Euro	24.7	–	0.2	5.7	30.6
Sterling	–	–	–	0.3	0.3
Other	(45.6)	3.3	–	(3.4)	(45.7)
	(20.9)	(72.4)	39.3	32.9	(21.1)

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:

	2011 $m	2010 $m
Impact of Euro strengthening by 9% against the US dollar:		
Decrease in profit before taxation for the year	**(4.3)**	(9.0)
Increase in equity shareholders' funds	**2.3**	4.3
Impact of Sterling strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	**1.4**	3.5
Decrease in equity shareholders' funds	**(19.3)**	(0.9)
Impact of all other currencies strengthening by 9% against the US dollar:		
Increase in profit before taxation for the year	**4.8**	6.8
Increase in equity shareholders' funds	**32.7**	34.7

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

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

Interest rate risk

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

As at 31 December 2011 contracts with a principal value totalling $190.0 million (2010 – $210.0 million) have fixed interest payments of which contracts with a principal value totalling $45.0 million mature within one year (2010 – $20.0 million). In addition at 31 December 2011 contracts with a principal value totalling $110.0 million (2010 – $110.0 million) have been entered into which commence after the year end when certain contracts mature. The contracts in place at 31 December 2011 and 31 December 2010 have fixed interest payments at rates between 1.87% and 4.79% for periods up until December 2015 and have floating rate interest receipts.

The fair values of interest rate swaps entered into at 31 December 2011 comprise assets of nil (2010 – $2.1 million) and liabilities of $10.1 million (2010 – $10.9 million). All of these interest rate swaps were designated and effective as cash flow hedges and movements in fair value were taken to equity.

21. Treasury policy (continued)

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:

	2011 $m	2010 $m
Decrease in profit before taxation for the year	**(1.1)**	(0.7)
Increase in equity shareholders' funds	**4.1**	6.5

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 2011 of $3.7 million (2010 – $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 (ie as prices) or indirectly (ie 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 2011	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets at fair value through profit or loss:				
– Derivative financial assets	**–**	**2.5**	**–**	**2.5**
Financial assets at fair value through comprehensive income:				
Available-for-sale assets:				
– Equity investments	**0.9**	**–**	**1.2**	**2.1**
– Bonds	**1.6**	**–**	**–**	**1.6**
	2.5	**2.5**	**1.2**	**6.2**

At 31 December 2010	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss:				
– Derivative financial assets	–	4.7	–	4.7
Financial assets at fair value through comprehensive income:				
– Derivative financial assets	–	2.1	–	2.1
Available-for-sale assets:				
– Equity investments	–	–	1.4	1.4
– Bonds	1.7	–	–	1.7
	1.7	6.8	1.4	9.9

21. Treasury policy (continued)

Financial liabilities measured at fair value

At 31 December 2011	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial liabilities at fair value through profit or loss:				
– Derivative financial liabilities	**–**	**4.7**	**–**	**4.7**
Financial liabilities at fair value through comprehensive income:				
– Derivative financial liabilities	**–**	**10.1**	**–**	**10.1**
	–	**14.8**	**–**	**14.8**

At 31 December 2010	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities at fair value through profit or loss:				
– Derivative financial liabilities	–	1.6	–	1.6
Financial liabilities at fair value through comprehensive income:				
– Derivative financial liabilities	–	10.9	–	10.9
	–	12.5	–	12.5

22. Provisions

	2011 $m	2010 $m
Included in current liabilities	**97.8**	108.2
Included in non-current liabilities	**25.8**	35.7
Total provisions	**123.6**	143.9

In September 2007 the European Commission concluded its investigation into European fasteners. It imposed fines against several producers, including a fine against the Coats plc Group of €110.3 million (equivalent to $142.8 million at 31 December 2011 exchange rates). 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 and is vigorously contesting the Commission's decision in an appeal which has been lodged with the European General Court 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 2011 of $133.3 million (2010 – $199.2 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 April 2017.

On 31 October 2011 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 June 2013 to April 2017.

Under IAS 39 – Financial Instruments: Measurement and Recognition, the extension to April 2017 represents a substantial modification and consequently the change in terms has been accounted for as an extinguishment of the original financial instrument and the recognition of a new financial instrument. The fair value of the liability component has therefore been determined as at 31 October 2011 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	$m
Carrying value of liability component of amounts owed to parent undertaking at 1 January 2010		173.2
Notional interest charge for the year		26.0
Carrying value of liability component of amounts owed to parent undertaking at 31 December 2010		**199.2**
Increase in equity component of amounts owed to parent undertaking (subordinated and convertible) following the substantial modification (see below)		**(9.4)**
Reversal of notional interest charged to the profit and loss account in prior years as a result of the substantial modification	**(59.6)**	
Notional interest charge for the period from the date of the substantial modification to 31 December 2011	**3.1**	
Notional interest for the year		**(56.5)**
Carrying value of liability component of amounts owed to parent undertaking at 31 December 2011		**133.3**

The carrying value of the liability component and the change in equity component at 31 October 2011 was as follows:

	$m
Nominal value of amounts owed to parent undertaking (subordinated and convertible)	**280.7**
Carrying value of liability component at 31 October 2011	**(130.2)**
Equity component at 31 October 2011	**150.5**
Equity component at date of issue	**141.1**
Increase in equity component	**9.4**

The notional interest charge for the period from 31 October 2011 is calculated by applying the effective interest rate at 31 October 2011 of 15% to the liability component being a comparable rate based on prevailing market rates for similar non-convertible instruments. For the year ended 31 December 2010 the notional charge was also calculated by applying the effective interest rate of 15%.

The Directors estimate the fair value of the liability component of amounts owed to the parent undertaking (subordinated and convertible) to be approximately $133.2 million at 31 December 2011 (2010 – $208.2 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 2010	18.9	7.2	(5.3)	13.2	(19.8)	14.2
(Credit)/charge to income	(2.3)	1.1	1.9	2.3	3.4	6.4
Charge to equity	–	0.3	–	–	–	0.3
Transfer to current tax	–	–	–	–	(0.6)	(0.6)
Exchange differences	0.1	–	–	–	(0.3)	(0.2)
At 31 December 2010	16.7	8.6	(3.4)	15.5	(17.3)	20.1
At 1 January 2011	**16.7**	**8.6**	**(3.4)**	**15.5**	**(17.3)**	**20.1**
Charge/(credit) to income	**10.2**	**0.6**	**(7.5)**	**1.7**	**1.3**	**6.3**
Charge to equity	**–**	**0.1**	**–**	**–**	**–**	**0.1**
Transfer to current tax	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Exchange differences	**(0.8)**	**(0.7)**	**0.3**	**(0.9)**	**1.3**	**(0.8)**
At 31 December 2011	**26.1**	**8.6**	**(10.6)**	**16.3**	**(14.6)**	**25.8**

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:

	2011 $m	2010 $m
Deferred tax liabilities	**39.3**	33.8
Deferred tax assets	**(13.5)**	(13.7)
	25.8	20.1

At 31 December 2011, the Group has unused income tax losses of $721.5 million (2010 – $700.3 million). A deferred tax asset of $10.6 million (2010 – $3.4 million) has been recognised in respect of $33.2 million (2010 – $12.3 million) of those losses. No deferred tax has been recognised in respect of the remaining $688.3 million (2010 – $688.0 million) of such losses, nor in respect of capital losses of $364.6 million (2010 – $335.0 million) due to the unpredictability of future taxable profit (revenue and capital) streams. Included in unrecognised tax losses are losses of $61.7 million (2010 – $61.6 million) that will expire over the next five years if not utilised in that period. Other losses will be carried forward for in excess of ten years or indefinitely.

At 31 December 2011 the Group also has unrecovered advance corporation tax of $70.1 million (2010 – $74.6 million) available for offset against future UK profits. No deferred tax asset has been recognised in respect of this due to the uncertainty of recoverability.

At 31 December 2011, 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 $1.2 million (2010 – nil), retirement benefit obligations of $65.0 million (2010 – $3.4 million) and other temporary differences of $7.2 million (2010 – $14.0 million).

At 31 December 2011, the aggregate amount of deferred tax liabilities recognised in respect of undistributed earnings of subsidiaries was $16.3 million (2010 – $15.5 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 joint ventures are insignificant.

25. Share capital

	Number of shares	2011 $m	Number of shares	2010 $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

26. Equity reserve

The equity reserve relates to the value of the conversion option of the compound financial instrument as detailed in note 23 and the deemed equity contribution relating to the capital incentive plan.

	Equity reserve $m
Balance at 1 January 2010 and 31 December 2010	**141.1**
Increase in equity component of amounts owed to parent undertaking (subordinated and convertible) (note 23)	**9.4**
Contribution from parent in respect of capital incentive plan (note 7)	**2.6**
Balance at 31 December 2011	**153.1**

27. Hedging and translation reserve

	Hedging reserve $m	Translation reserve $m	Total $m
Balance at 1 January 2010	(8.8)	17.1	8.3
Exchange differences on translation of foreign operations	–	8.1	8.1
Decrease in fair value of cash flow hedges	(7.0)	–	(7.0)
Transfer to income	7.0	–	7.0
Balance at 31 December 2010	(8.8)	25.2	16.4
Balance at 1 January 2011	**(8.8)**	**25.2**	**16.4**
Exchange differences on translation of foreign operations	**–**	**(36.3)**	**(36.3)**
Decrease in fair value of cash flow hedges	**(7.5)**	**–**	**(7.5)**
Transfer to income	**6.2**	**–**	**6.2**
Balance at 31 December 2011	**(10.1)**	**(11.1)**	**(21.2)**

28. Retained loss

	2011 $m	2010 $m
Balance at 1 January	**(1.1)**	(8.2)
Net profit for the year	**127.7**	33.9
Acquisition of part of a non-controlling interest	**–**	0.1
Actuarial losses in respect of retirement benefit schemes	**(299.3)**	(26.6)
Tax on items taken directly to equity	**(0.1)**	(0.3)
Balance at 31 December	**(172.8)**	(1.1)

29. Reconciliation of closing equity

	2011			2010		
	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	**294.3**	**17.3**	**311.6**	279.1	15.6	294.7
Total comprehensive income and expense for the year	**(209.3)**	**5.2**	**(204.1)**	15.2	5.3	20.5
Dividends paid	**–**	**(4.6)**	**(4.6)**	–	(3.5)	(3.5)
Acquisition of part of a non-controlling interest	**–**	**–**	**–**	–	(0.1)	(0.1)
Increase in equity component of amounts owed to parent undertaking (subordinated and convertible) (note 23)	**9.4**	**–**	**9.4**	–	–	–
Contribution from parent in respect of capital incentive plan (note 7)	**2.6**	**–**	**2.6**	–	–	–
Balance at 31 December	**97.0**	**17.9**	**114.9**	294.3	17.3	311.6

30. Notes to the cash flow statement

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

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
Operating profit	**131.6**	118.0
Depreciation of property, plant and equipment	**49.0**	50.1
Amortisation of intangible assets (computer software)	**8.0**	8.8
Reorganisation costs	**12.5**	18.8
Impairment of property, plant and equipment	**2.1**	0.5
Impairment of intangible assets (computer software)	**–**	0.5
Other exceptional items	**(2.6)**	(5.5)
Increase in inventories	**(33.6)**	(55.6)
Increase in debtors	**(1.3)**	(42.4)
Increase in creditors	**5.4**	25.9
Provision movements	**(23.2)**	(11.7)
Other non-cash movements	**2.4**	10.4
Net cash inflow from normal operating activities	**150.3**	117.8
Net cash outflow in respect of reorganisation costs	**(13.7)**	(23.6)
Net cash outflow in respect of other exceptional items	**(2.6)**	–
Net cash inflow generated by operations	**134.0**	94.2

30. Notes to the cash flow statement (continued)

(b) Analysis of net debt

	At 31 December 2010 $m	Cash flow $m	Other non-cash changes $m	Exchange $m	**At 31 December 2011 $m**
Cash and cash equivalents	141.8				**112.0**
Bank overdrafts	(26.3)				**(26.4)**
Net cash and cash equivalents	115.5	(18.3)	–	(11.6)	**85.6**
Loans	(357.2)	36.2	(4.5)	1.6	**(323.9)**
Finance leases	(0.2)	0.1	–	–	**(0.1)**
Total	(241.9)	18.0	(4.5)	(10.0)	**(238.4)**

Net debt is before amounts owed to a parent undertaking (subordinated and convertible) of $133.3 million (2010 – $199.2 million) as set out in note 23.

(c) Acquisition of businesses

During the year the Group acquired a 50% shareholding in Coats VTT Limited for a consideration of $1.1 million.

(d) Disposal of subsidiaries

During the year the Group utilised provisions of $1.0 million (2010 – $0.9 million) in respect of non-core operations disposed of in a prior year. As a result the overall cash outflow in respect of discontinued businesses was $1.0 million (2010 – $0.9 million).

31. Contingent liabilities

The US Environmental Protection Agency has notified Coats that it is a potentially responsible party under the US Superfund for investigation and remediation costs in connection with the Lower Passaic River Study Area in New Jersey, in respect of former facilities which operated in that area prior to 1950. Approximately 70 companies to date have formed a cooperating parties group to fund and conduct a remedial investigation and feasibility study of the area. Coats joined this group in 2011 and the $2.5 million (2010 – $2.5 million) exceptional cost charged in the year (see note 5) is in respect of Coats' updated estimated share of the cost of this study and associated legal and consultancy expenses.

Coats believes that its former facilities which operated in the Lower Passaic River Study Area did not generate the contaminants which are driving the anticipated remedial actions and that this, and other mitigating factors, should result in a reduced share of any exposure for future remedial and other costs. At the present time, there can be no assurance as to the scope of these remedial and other costs nor can Coats predict what its ultimate share will be. Accordingly, no provision has been made for these costs.

From time to time, in the ordinary course of business, the Group may receive claims or become involved in actual or threatened litigation. In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, no disclosure is made of contingent liabilities where the possibility of an outflow of economic benefits is remote.

32. Operating lease arrangements

The Group as lessee

	2011 $m	2010 $m
Minimum lease payments under operating leases recognised in the income statement for the year	**22.7**	21.4
At the year end, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:		
Within one year	**19.1**	19.0
In the second to fifth years inclusive	**34.0**	32.0
After five years	**9.6**	7.7
	62.7	58.7

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 year end, the Group had contracted with tenants for the following future minimum lease payments:

Within one year	**1.2**	2.7
In the second to fifth years inclusive	**3.2**	3.9
After five years	**2.1**	2.6
	6.5	9.2

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 2011		Year ended 31 December 2010
	$m	**$m**	$m	$m
Defined contribution schemes		**2.8**		3.0
Defined benefit schemes – UK funded	**(1.1)**		2.6	
US funded	**2.9**		2.7	
Other funded and unfunded	**7.3**		8.0	
		9.1		13.3
		11.9		16.3

(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 statements of financial position of the companies concerned.

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

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2011. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2009 for the UK scheme and 31 December 2011 for the US scheme.

Principal assumptions at 31 December 2011	**UK %**	**US %**	**Other %**
Rate of increase in salaries	**3.8**	**4.0**	**3.3**
Rate of increase for pensions in payment	**2.7**	**–**	**1.9**
Discount rate	**4.6**	**4.5**	**4.8**
Inflation assumption	**2.8**	**2.5**	**2.6**

Principal assumptions at 31 December 2010	UK %	US %	Other %
Rate of increase in salaries	4.3	4.2	3.1
Rate of increase for pensions in payment	3.1	–	2.0
Discount rate	5.5	5.1	5.1
Inflation assumption	3.3	2.6	2.4

Long-term rate of return expected at 31 December 2011	**UK %**	**US %**	**Other %**
Equities	**8.4**	**7.9**	**8.3**
Corporate bonds and gilts	**4.2**	**4.6**	**5.2**
Other	**4.2**	**–**	**4.5**

Long-term rate of return expected at 31 December 2010	UK %	US %	Other %
Equities	8.3	8.0	9.6
Corporate bonds and gilts	5.0	4.7	4.3
Other	6.7	–	5.1

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

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 2011	UK $m	US $m	Other $m	Group $m
Current service cost	**(2.9)**	**(2.9)**	**(7.2)**	**(13.0)**
Past service credit/(cost)	**4.0**	**–**	**(0.1)**	**3.9**
Included in operating profit	**1.1**	**(2.9)**	**(7.3)**	**(9.1)**
Interest on defined benefit obligations – unwinding of discount	**(118.8)**	**(7.4)**	**(5.3)**	**(131.5)**
Expected return on pension scheme assets	**134.2**	**12.2**	**2.0**	**148.4**
Included in finance costs – net return/(charge)	**15.4**	**4.8**	**(3.3)**	**16.9**

For the year ended 31 December 2010	UK $m	US $m	Other $m	Group $m
Current service cost	(2.6)	(2.7)	(8.0)	(13.3)
Included in operating profit	(2.6)	(2.7)	(8.0)	(13.3)
Interest on defined benefit obligations – unwinding of discount	(119.1)	(8.1)	(6.0)	(133.2)
Expected return on pension scheme assets	132.8	12.2	2.2	147.2
Included in finance costs – net return/(charge)	13.7	4.1	(3.8)	14.0

As part of the long-term strategy to manage risks and uncertainties associated with the UK scheme, during the year the Group offered certain pensioners the opportunity to uplift their pension with effect from March 2012, in return for giving up rights to annual inflationary increases. The level of pensioner acceptance by the year end resulted in a past service credit of $4.0 million, reflecting the reduction in liabilities which has arisen, which has been recognised as an exceptional item (see note 5).

The actual return on scheme assets was $20.8 million (2010 – $213.5 million) for the UK, $22.0 million (2010 – $26.9 million) for the US and $0.2 million (2010 – $2.9 million) for other.

The amounts included in the statement of financial position arising from the Group's defined benefit arrangements are as follows:

As at 31 December 2011	UK $m	US $m	Other $m	Total $m
Equities	**788.7**	**62.0**	**11.7**	**862.4**
Corporate bonds and gilts	**1,037.7**	**166.9**	**6.1**	**1,210.7**
Other	**249.0**	**–**	**7.5**	**256.5**
Total market value of assets	**2,075.4**	**228.9**	**25.3**	**2,329.6**
Actuarial value of scheme liabilities	**(2,326.4)**	**(156.8)**	**(118.4)**	**(2,601.6)**
Gross net (liability)/asset in the scheme	**(251.0)**	**72.1**	**(93.1)**	**(272.0)**
Adjustment due to surplus cap	**–**	**(38.4)**	**(2.9)**	**(41.3)**
Recoverable net (liability)/asset in the scheme	**(251.0)**	**33.7**	**(96.0)**	**(313.3)**

This amount is presented in the statement of financial position as follows:

Non-current assets	**30.7**
Current assets	**4.9**
Current liabilities	**(21.1)**
Non-current liabilities	**(327.8)**
	(313.3)

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

As at 31 December 2010	UK $m	US $m	Other $m	Total $m
Equities	711.5	67.0	12.2	790.7
Corporate bonds and gilts	1,357.4	156.3	9.7	1,523.4
Other	120.4	–	8.1	128.5
Total market value of assets	2,189.3	223.3	30.0	2,442.6
Actuarial value of scheme liabilities	(2,170.7)	(153.8)	(121.5)	(2,446.0)
Gross net asset/(liability) in the scheme	18.6	69.5	(91.5)	(3.4)
Adjustment due to surplus cap	(17.1)	(37.5)	(3.2)	(57.8)
Recoverable net asset/(liability) in the scheme	1.5	32.0	(94.7)	(61.2)

This amount is presented in the statement of financial position as follows:

Non-current assets	49.1
Current assets	2.4
Current liabilities	(24.5)
Non-current liabilities	(88.2)
	(61.2)

The UK and US schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2011, $94.3 million (2010 – $97.7 million) related to wholly unfunded arrangements.

Movements in the present value of defined benefit obligations were as follows:

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
At 1 January	**(2,446.0)**	(2,423.5)
Current service cost	**(13.0)**	(13.3)
Past service credit	**3.9**	–
Interest on defined benefit obligations – unwinding of discount	**(131.5)**	(133.2)
Actuarial losses on obligations	**(210.3)**	(100.3)
Contributions from members	**(0.8)**	(0.7)
Benefits paid	**168.2**	158.2
Exchange difference	**27.9**	66.8
At 31 December	**(2,601.6)**	(2,446.0)

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

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

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
At 1 January	**2,442.6**	2,422.5
Expected return on scheme assets	**148.4**	147.2
Actuarial (losses)/gains and on assets	**(105.5)**	79.4
Contributions from members	**0.8**	0.7
Contribution from sponsoring companies	**20.7**	7.3
Benefits paid	**(161.0)**	(151.3)
Exchange difference	**(16.4)**	(63.2)
At 31 December	**2,329.6**	2,442.6

Actuarial gains and losses were as follows:

Actuarial losses on obligations	**(210.3)**	(100.3)
Actuarial (losses)/gains on assets	**(105.5)**	79.4
Adjustment due to surplus cap	**16.5**	(5.7)
Included in the statement of comprehensive income	**(299.3)**	(26.6)
Cumulative amount included in comprehensive income	**(272.4)**	26.9

For the principal schemes, the assumed life expectancy on retirement is:

	Year ended 31 December 2011		Year ended 31 December 2010	
	UK Years	**US Years**	UK Years	US Years
Retiring today at age 60:				
Males	**24.8**	**23.3**	24.7	23.3
Females	**27.4**	**25.3**	27.3	25.2
Retiring in 20 years at age 60:				
Males	**26.8**	**25.1**	26.7	25.0
Females	**29.4**	**26.3**	29.3	26.2

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

Sensitivities regarding the discount rate and inflation assumptions (the latter of which also impacts the rate of increases in salaries and rate of increase for pension in payments assumptions for the UK scheme) used to measure the liabilities of the principal schemes, along with the impact they would have on the scheme liabilities, are set out below:

	Year ended 31 December 2011		Year ended 31 December 2010	
	+ 0.1% $m	**– 0.1% $m**	+ 0.1% $m	– 0.1% $m
UK discount rate	**(33.3)**	**34.0**	(27.6)	28.0
US discount rate	**(1.6)**	**1.6**	(1.6)	1.6
UK inflation rate	**28.3**	**(27.8)**	23.8	(23.3)
US inflation rate	**–**	**–**	–	–

	Year ended 31 December 2011 Valuation trend		Year ended 31 December 2010 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	**0.2**	**(0.2)**	0.2	(0.2)

History of experience adjustments

For the year ended 31 December 2011 these were:	**UK $m**	**US $m**	**Other $m**
Present value of defined benefit obligations	**(2,326.4)**	**(156.8)**	**(118.4)**
Fair value of scheme assets	**2,075.4**	**228.9**	**25.3**
Net (liability)/asset in respect of the scheme	**(251.0)**	**72.1**	**(93.1)**
Experience gains and losses on scheme liabilities	**(26.4)**	**2.3**	**(0.5)**
Percentage of scheme liabilities	**(1)%**	**1%**	**–**
Difference between the expected and actual return on pension scheme assets	**(113.4)**	**9.8**	**(1.8)**
Percentage of scheme assets	**(5)%**	**4%**	**(7)%**

For the year ended 31 December 2010 these were:	UK $m	US $m	Other $m
Present value of defined benefit obligations	(2,170.7)	(153.8)	(121.5)
Fair value of scheme assets	2,189.3	223.3	30.0
Net asset/(liability) in respect of the scheme	18.6	69.5	(91.5)
Experience gains and losses on scheme liabilities	(24.7)	(4.8)	0.2
Percentage of scheme liabilities	(1)%	(3)%	–
Difference between the expected and actual return on pension scheme assets	80.7	14.7	0.7
Percentage of scheme assets	4%	7%	2%

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

History of experience adjustments (continued)

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%

The triennial valuation of the UK pension plan as at April 2009 showed an actuarial deficit of $157.4 million (at 31 December 2011 exchange rates), which equated to a funding level of 92%. A ten year recovery plan has been agreed with the scheme, under which contributions of $13.4 million per annum (at 31 December 2011 exchange rates) are payable from January 2011 (of which $2.5 million relates to future service). This recovery plan will be reviewed at the next triennial valuation as at April 2012. The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2012 financial year is $24.6 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 2011 $m	Parent companies 2010 $m	**Joint ventures and associates 2011 $m**	Joint ventures and associates 2010 $m
Sales of goods	**–**	–	**8.2**	13.6
Purchases of goods	**–**	–	**43.2**	48.3
Other income	**–**	–	**0.4**	0.5
Due from related parties	**–**	–	**3.3**	1.0
Due to related parties	**133.3**	199.7	**12.8**	11.6

Amounts owed to parent undertakings include the liability component of $133.3 million (2010 – $199.2 million) of the compound financial instrument as disclosed in note 23. The nominal value is $280.7 million (2010 – $280.7 million). The other amounts outstanding are unsecured and will be settled in cash. 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 2011 $m	Year ended 31 December 2010 $m
Short-term benefits	**1.4**	1.8
Post-employment benefits	**0.1**	–
Long-term incentive payments receivable	**0.8**	0.3
	2.3	2.1
Highest paid Director:		
Emoluments	**1.0**	1.7
Long-term incentive payments receivable	**0.8**	0.3
Company pension contributions to defined contribution scheme	**0.1**	–
	1.9	2.0

As at 31 December 2011 one Director was accruing retirement benefits under a defined contribution pension arrangement (2010 – one).

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 2011 and 2010.

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 2011 and 2010.

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 auditor's report to the members of Coats plc

We have audited the Parent Company financial statements of Coats plc for the year ended 31 December 2011 which comprise the Company statement of financial position and the related notes A to N. 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).

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 auditor's 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 Auditor
As explained more fully in the Directors' responsibilities statement, 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 and express an opinion on 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 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.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011;
- 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 Parent Company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters:

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.

Other matter
We have reported separately on the Group financial statements of Coats plc for the year ended 31 December 2011. That report includes an emphasis of matter.

Peter O'Donoghue FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 March 2012

Company statement of financial position

At 31 December 2011	Notes	2011 $m	2010 $m
Fixed assets			
Investments in subsidiary undertakings	C	**1,920.3**	1,912.6
Current assets			
Debtors due within one year	D	**0.5**	0.4
Cash at bank and in hand		**1.4**	–
		1.9	0.4
Creditors – amounts falling due within one year			
Other creditors	E	**(3.6)**	(44.6)
Net current liabilities		**(1.7)**	(44.2)
Total assets less current liabilities		**1,918.6**	1,868.4
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	**(1,168.5)**	(1,053.6)
		(1,449.2)	(1,334.3)
Provisions for liabilities and charges	7	**(5.6)**	(5.6)
Net assets		**463.8**	528.5
Capital and reserves			
Called up share capital	25	**137.9**	137.9
Equity reserve	I	**2.6**	–
Profit and loss account	J	**323.3**	390.6
EQUITY SHAREHOLDERS' FUNDS	K	**463.8**	528.5

The financial statements of Coats plc (the Company), registered number 04620973, on pages 76 to 80 were approved by the Board of Directors and authorised for issue on 30 March 2012.

They were signed on its behalf by:

Blake Nixon
Director
30 March 2012

Notes to the Company accounts

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 (2010 – nil). Their fair value comprises assets of nil (2010 – $2.1 million) and liabilities of $10.1 million (2010 – $10.9 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) Compensation

The Company participates in a compensation plan operated by the Company's parent undertaking which is accounted for as an equity-settled compensation plan as the Company has no obligation to settle the share-based payment. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant dates of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the ultimate settlement and adjusted for the effect of non market-based vesting conditions, with a corresponding increase recognised in equity as a contribution from the parent.

The anticipated present value cost of the Company's non-share-based long-term incentive schemes is charged to the income statement on a straight-line basis over the period the benefit is earned, based on remuneration rates that are expected to be payable.

(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 year end, 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

	Year ended 31 December 2011 $m	Year ended 31 December 2010 $m
The Company's loss was	**67.3**	67.9

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 is disclosed in note 34 to the consolidated accounts and details of amounts charged in the Company's accounts under long-term incentive schemes are disclosed in note 7 to the consolidated accounts. The auditor's remuneration for audit services to the Company was $0.4 million (2010 – $0.3 million). Audit fees and any short-term employee benefits 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 2011	1,798.0	114.6	1,912.6
Additions	21.1	1.5	22.6
Disposals	–	(14.9)	(14.9)
At 31 December 2011	**1,819.1**	**101.2**	**1,920.3**

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

D. Debtors

	2011 $m	2010 $m
Debtors due within one year:		
Amounts owed by subsidiary undertakings	**0.5**	0.4

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

	2011 $m	2010 $m
Amounts owed to subsidiary undertakings	**1.4**	0.6
Bank loans	**–**	37.0
Bank overdrafts	**–**	5.7
Accruals and deferred income	**2.2**	1.3
	3.6	44.6

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

The amounts owed to the parent undertaking of $280.7 million (2010 – $280.7 million) are non-interest bearing, repayable in April 2017, 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 April 2017.

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

	2011 $m	2010 $m
Bank loans	**281.3**	260.8
Amounts owed to subsidiary undertakings	**887.2**	792.8
	1,168.5	1,053.6

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 $760.0 million (2010 – $545.0 million) banking facility. At 31 December 2011, $62.1 million (2010 – $70.6 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:

	2011 $m	2010 $m
Trading losses	**14.6**	17.2
Other temporary differences	**1.4**	1.5
	16.0	18.7

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

I. Equity reserve

	$m
Balance at 1 January 2011	**–**
Contribution from parent in respect of capital incentive plan (note 7)	**2.6**
Balance at 31 December 2011	**2.6**

J. Profit and loss account

	2011 $m	2010 $m
Balance at 1 January	**390.6**	458.5
Net loss for the year	**(67.3)**	(67.9)
Balance at 31 December	**323.3**	390.6

K. Reconciliation of closing equity

	2011 $m	2010 $m
Balance at 1 January	**528.5**	596.4
Net loss for the year	**(67.3)**	(67.9)
Contribution from parent in respect of capital incentive plan (note 7)	**2.6**	–
Balance at 31 December	**463.8**	528.5

L. Contingent liabilities

	2011 $m	2010 $m
Loan and overdraft guarantees in respect of certain subsidiaries	**2.2**	3.1
Others including overseas documentary credits and trade facility guarantees in respect of certain subsidiaries	**2.3**	2.7
	4.5	5.8

M. 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 wholly owned entities within the Guinness Peat Group.

N. Principal subsidiary undertakings and joint ventures

The principal subsidiary undertakings of the Company and the Group at 31 December 2011 were as follows:

Holding, Finance and Property Companies		Country of incorporation or registration and principal country of operation
Coats Holdings Ltd		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 International Pte Limited		Singapore
Coats North America Consolidated Inc.		US
Thread		
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 Egypt SAE		Egypt
Coats (UK) Limited		England
Coats France SAS		France
Coats GmbH		Germany
Coats Honduras SA		Honduras
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 Fabra SA		Spain
Coats Thread Lanka (Private) Ltd	99.7%	Sri Lanka
Coats Trading Tunisie SARL		Tunisia
Coats (Turkıye) Iplik Sanayii AS	91.8%	Turkey
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Phong Phu Co Ltd	70%	Vietnam

The principal joint ventures at 31 December 2011 were as follows:

Thread – Joint Ventures		
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 Industrial Thread Holdings BV and Coats Industrial Thread Limited are held indirectly.

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