

Coats Group Limited: unaudited results* for the year ended 31 December 2005

Financial summary

	2005 Unaudited US\$m	Like-for-like 2004 Unaudited US\$m	2004 Unaudited US\$m	Memorandum UK GAAP 2004 Unaudited US\$m
Revenue	1,636.7	**1,626.3	1,578.2	****1,587.5
Operating profit before reorganisation, impairment and other exceptional items (see note 2)	126.5	**92.4	90.5	****104.8
Operating profit	99.8	**42.7	41.1	
Profit before taxation	78.3		12.0	
Net profit/(loss) attributable to equity shareholders	52.4		(7.6)	
Net cash inflow from operations before reorganisation costs and other exceptional items (see note 5)	231.2		232.8	
Net cash inflow generated by operations	176.9		196.5	
Capital expenditure	81.3		91.1	
Net debt (excluding preference shares)	***340.6		403.8	
Net debt	363.3		403.8	
Net gearing (including preference shares as equity)	***76%		112%	
Net gearing	86%		112%	

* The financial information for the year ended 31 December 2005 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) endorsed by the European Union, and the accounting policies adopted have been consistently applied to the restated financial information presented for the year ended 31 December 2004, except for those relating to the classification and measurement of financial instruments (IAS 32 and IAS 39). The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. Note 1 in these financial statements sets out further information on the basis of preparation of the financial information.

** Excluding the impact of exchange translation and the acquisition and disposal of businesses

*** These figures are adjusted to include preference shares in equity, instead of net debt. Net debt at 31 December 2005 includes \$22.7 million of preference share capital as, in accordance with IAS 32 and 39 (which were adopted from 1 January 2005), the preference share capital of a subsidiary undertaking is now classified as debt.

**** These figures are as reported for the Thread business in the financial information for Coats Group

Limited for the year ended 31 December 2004, which was published on 28 April 2005, prepared under UK GAAP as at 31 December 2004. The operating profit figure is before reorganisation, impairment, exceptional items and goodwill amortisation.

Chairman's statement

Results

In 2005, Coats Group Limited made good progress in terms of profits and cash generation, as well as improving its long term competitive position by substantial investments in the relocation and upgrading of capacity.

Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) improved by 37% on a like-for-like basis to \$126.5 million (see Operating Review). The increase was mainly due to cost reductions in Europe, North America, and Corporate, as the benefits from previous reorganisation projects began to feed through. Like-for-like sales growth was relatively modest at 1%, with strong growth in handknittings offset by declines in other crafts segments, and growth in industrial thread sales in Asia offset by declines in North America and Western Europe.

Net earnings attributable to equity shareholders recovered from a loss of \$7.6 million to a profit of \$52.4 million. Exceptional gains from disposals and foreign exchange more than compensated the impact of higher reorganisation costs.

Net cash inflow from operations before reorganisation costs and other exceptional items was \$231 million (2004 - \$233 million), comfortably covering investment of \$136 million (2004 - \$127 million) in reorganisation projects, new plant and equipment. In addition to increased profit, cash performance was assisted by further improvement in working capital efficiency, with a net working capital reduction of \$55 million coming on top of the previous year's reduction of \$91 million. In 2005, average working capital/sales fell to 24% compared to 27% in 2004.

As a result of the strong operating cash flow, net debt before reclassification of preference shares (\$22.7 million at 31 December 2005) was reduced by \$63.2 million.

Investment, reorganisation & disposals

During 2005 the Group continued to invest in upgrading plant and systems in all regions to world class standards, as well as expanding capacity in several Asian markets. Total spending amounted to \$81 million (2004 - \$91 million).

The acquisition of Almedahls, a crafts wholesaler in Sweden and Norway with annual sales of approximately \$27 million, was successfully completed and the business is now fully integrated into our existing operations. The cost of acquisition was more than covered by proceeds from the disposal of Dorma Bedwear.

As anticipated, reorganisation costs continued at a high level, with the vast majority of projects involving plant closures and overhead reductions in Western Europe in response to reduced demand as a result of customer migration. Regrettably this has resulted in significant job losses. Including reductions in other regions, total numbers employed in the continuing business fell by 2,800 to 24,700 at the end of 2005. Total reorganisation spend of \$54 million was matched by proceeds from sales of property, which in most cases had become surplus as a result of the Group's restructuring program.

European Commission Investigation

As previously reported, since 2001 the European Commission has been investigating former trading practices in the European haberdashery and thread markets, subsequently splitting its investigation into three sub-cases covering hand-sewing needles, industrial thread, and fasteners. In October 2005 the Commission concluded its investigation into industrial thread and imposed fines against several producers, including Euro 18.5 million against the Group. Following legal advice, the Group has determined not to appeal and the fine will be paid over the next two years.

The cost of the thread fine will be met out of the provision established in earlier years and the remaining balance of the provision is believed to be sufficient to cover any anticipated eventual payment in respect of the other cases.

Prospects

During 2006 we expect to make substantial progress towards completion of the major projects which have been required to realign the Group's manufacturing capacity and overheads with demand in each region and which have been a dominant feature of management activity and Group results over the last few years. Where possible, remaining projects are being accelerated and this will result in reorganisation costs continuing at a similar level to 2005. However, proceeds from disposal of surplus property are also expected to remain high and, as in 2005, should cover the majority of reorganisation costs.

During 2006, investment in plant, machinery and IT is expected to continue at a high level as production units are brought up to world class standards and business systems move towards a common SAP platform.

The market for industrial thread – which makes up just over half of Group sales - remains highly competitive, but global demand is reasonably firm and margins in 2006 will benefit from the reorganisation and investment projects completed in 2005. On the other hand, demand for industrial zips remains weak and both volumes and margins are under pressure.

In crafts, there is some uncertainty as to whether handknittings sales will be maintained at the high levels experienced during the last few years. First half sales in North America will be affected by retailer de-stocking, as growth in consumer demand during the second half of 2005 fell short of relatively ambitious retail projections. In contrast, handknittings sales in Western Europe remain strong. Although the Group's broad portfolio of craft products and flexible supply chain should enable it to withstand crafts fashion cycles better than many other participants in the industry, handknittings is our most important segment and a key contributor to Group profits.

Overall, despite uncertain market conditions, reorganisation benefits should allow the Group to make progress in 2006 at the operating level on a like-for-like basis. The regional analysis of sales and pre-exceptional operating profits presented below in the Operating Review highlights the scope for improvement in margins once our businesses in Europe and North America are correctly configured and running at optimum efficiency. The Board remains confident that the significant investment in reorganisation and new plant will lead to further benefits in future years.

Gary Weiss
Chairman
14 March 2006

Operating review

Trading performance by region

	2004 restated* \$m	Exchange retranslation ** \$m	Acquisitions /disposals \$m	2004 like-for-like \$m	2005 reported \$m	Like-for-like Increase/(decrease) %
External sales						
Asia & Rest of world	421.8	2.2	-	424.0	463.9	9%
UK & Europe	574.7	(1.6)	19.8	592.9	545.4	(8%)
N America	412.6	1.7	4.4	418.7	431.3	3%
S America	169.1	21.6	-	190.7	196.1	3%
Total	1578.2	23.9	24.2	1626.3	1636.7	1%
Pre-exceptional operating profit***						
Asia & Rest of world	66.0	0.3	-	66.3	66.4	
UK & Europe	1.2	0.4	(0.7)	0.9	12.1	
N America	5.1	0.2	-	5.3	26.0	
S America	18.2	1.7	-	19.9	22.0	
Total	90.5	2.6	(0.7)	92.4	126.5	37%

*All figures prepared in accordance with IFRS as explained in note 1. In addition, regional information has been restated to reflect the charge-out of net central costs to each operating unit and reclassification of certain territories

**Impact of restating 2004 figures at 2005 exchange rates

***pre reorganisation, impairment and other exceptional items (see note 2)

In the following comments on regional performance, all comparisons with 2004 are based on the table above.

Asia & Rest of world

Sales +9%; OP flat

Industrial thread sales continued to grow strongly reflecting the benefit of our relationships with global retailers and brand owners. Operating profit however was flat, partly as a result of start-up issues in the new apparel thread and zip plants in China, but also reflecting the extremely competitive market.

Although there is strong local competition in the region, the investment in new capacity and additional infrastructure in China – which held back results in 2005 - makes the Group well positioned to benefit from future growth. In the short term, strong growth of exports of clothing and footwear to Western markets from the region is likely to continue, even though trade restrictions may alter the balance from individual countries from time to time.

UK & Europe***Sales -8%; OP +\$11 million***

The market for industrial thread and zips in Europe continued to decline as a result of customer migration to Asia. Excluding the additional sales from the acquisition of Almedahls, crafts sales were also down on previous year as weak demand for other crafts products offset strong growth in handknittings.

Despite weak sales, there was a partial recovery in margins as the benefits from plant closures and general overhead reductions began to come through. During the year, substantial progress was made towards the total restructuring of our industrial thread business in Western Europe, but realisation of the full potential benefits depends on further cost reductions planned for 2006. Our European crafts business is also expected to benefit from increased regional coordination of product ranges and supply chain.

North America***Sales +3%; OP +\$21 million***

Strong growth in handknittings sales, partly assisted by the sell-in of launch stocks of a new fashion range, offset general market declines in industrial thread and other crafts product segments. Sales were also affected by a policy to reduce exposure to low-margin customer or product segments in industrial thread.

Notwithstanding difficult market conditions, a sharp reduction in the industrial thread loss was the main contributor to improvement in North American operating profit as benefits from earlier reorganisation came through. Whilst the crafts market is expected to trade at a reduced level in 2006, there is clear scope for further gains in industrial thread margins from improved manufacturing efficiencies, overhead reductions, and removal of remaining textiles trade restrictions in the USA.

South America***Sales +3%; OP +\$2 million***

US dollar values of sales and profits in South America benefited from revaluation of local currencies. However, the resulting reduction in competitiveness depressed demand for industrial thread. This was offset by strong growth in crafts sales, driven by handknittings. Operating margins strengthened to 11% as a result of the higher crafts volumes.

Thread reorganisation, impairment and exceptional costs

Reorganisation costs of \$62.4 million (2004 - \$45.6 million) were incurred in the year. The majority of costs related to closures of industrial thread and zip plants in Western Europe but also included a further transfer of industrial thread production from the US to Mexico, reduction of overheads in the USA and Asia, and closure of two industrial thread spinning plants.

Profits from the sale of properties becoming surplus as a result of the reorganisation program generated almost half of the exceptional gains of \$35.7 million (2004 – loss \$3.8 million) with the balance due to exchange gains (see note 2). Exceptional costs incurred in 2004 are largely in respect of the refinancing exercise completed in March 2004.

Non-Thread

As announced in last year's report the refocusing of the Group on Thread was completed with the sale of the Dorma Bedwear business in February 2005. Of the two remaining peripheral businesses Precision Process Testing was sold in 2005 and the sale of Coats Viyella Woollen Yarns is expected to be completed in the first half of 2006. Sales in 2005 from non-thread businesses until the date of disposal amounted to \$17.0 million (2004 - \$133.7 million) and mainly related to Bedwear.

The total profit from discontinued operations of \$15.0 million (2004 loss \$1.4 million) includes a benefit of \$12.5 million in respect of prior year business disposals. This is due to a write-back of the tax provision originally made at the time of disposal.

Investment income, finance costs, and tax

Finance costs fell to \$30.1 million (2004 - \$38.5 million), largely as a result of an increase in pension net finance income and exchange gains. Interest paid, net of interest received (which under IFRS is classified as investment income) increased slightly despite the reduction in year-end net debt. This was due to the reclassification in 2005 of preference shares as debt, an increase in seasonal debt, and the impact of the general rise in US dollar interest rates on the floating rate portion of our debt.

The tax charge of \$39.5 million (2004 - \$13.7 million) represents a rate of 50% (2004 – 114%) on pre-tax profit of \$78.3 million (2004 - \$12.0 million). In 2005, operating losses and reorganisation costs in individual tax jurisdictions were largely matched by exceptional gains, but the overall tax charge was adversely affected by an additional provision of \$14.8 million (2004 - \$4.0 million benefit) in respect of prior year items. Excluding the change in provision for prior year items, the tax rate was 32% (2004 – 148%).

Pension and other post-employment benefits

The Group operates a defined benefit plan in the UK and there are similar arrangements in the USA. The UK scheme shows a surplus of \$27.2 million (2004 – deficit of \$25.8 million) and the USA scheme shows a surplus of \$28.9 million (2004 - \$26.8 million). The UK and USA scheme surpluses are included in non-current assets. Employer contribution holidays on the UK and USA schemes continue to be taken based on actuarial advice.

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

Balance sheet and cash flow

Net cash inflow from operations remained strong at \$176.9 million (2004 - \$196.5 million). The increase in operating profit before exceptional items (see note 2) of \$36.0 million was offset by an increase of \$18.0 million in reorganisation spend and a lower decrease in working capital following the very substantial reduction achieved in 2004 (\$55.4 million in 2005 vs \$90.7 million in 2004).

The Group continues to make significant investments in upgrading plant and equipment and capital expenditure was \$81.3 million (2004 - \$91.1 million). The principal projects related to the expansion of capacity in Asia and cost saving projects in Europe and North America.

Disposals of businesses (net of acquisitions) and surplus assets generated \$62.0 million (2004 - \$41.6 million). In addition, disposals of financial investments were \$2.4 million (2004 - \$45.0 million).

Net debt at 31 December 2005 of \$363.3 million includes \$22.7 million of preference share capital, in accordance with IAS 32 and 39 (which were adopted from 1 January 2005). Before reclassification of the preference shares as debt, net debt was reduced by \$63.2 million to \$340.6 million compared to \$403.8 million at the start of the year.

Equity shareholders' funds increased from \$300.9 million to \$397.9 million (see note 4), largely reflecting the \$52.4 million profit (2004 - \$7.6 million loss) for the year and the actuarial gains in respect of pensions and other post-employment benefits of \$46.8 million (2004 - \$5.1 million). Treating the preference shares as equity in both years, net gearing (net debt/total equity) on a comparable basis has improved from 112% to 76% (see Financial summary).

Consolidated income statement (unaudited)

For the year ended 31 December 2005	Notes	2005 Unaudited US\$m	2004 Unaudited US\$m
Continuing operations			
Revenue		1,636.7	1,578.2
Cost of sales		<u>(1,084.0)</u>	<u>(1,069.4)</u>
Gross profit		552.7	508.8
Distribution costs		(306.2)	(298.1)
Administrative expenses		(165.6)	(170.9)
Other operating income		<u>18.9</u>	<u>1.3</u>
Operating profit	2	99.8	41.1
Share of profits of joint ventures		1.6	1.3
Share of profits of associated undertakings		-	0.2
Investment income		7.0	7.9
Finance costs		<u>(30.1)</u>	<u>(38.5)</u>
Profit before taxation		78.3	12.0
Taxation	3	<u>(39.5)</u>	<u>(13.7)</u>
Profit/(loss) from continuing operations		38.8	(1.7)
Discontinued operations			
Profit/(loss) from discontinued operations		15.0	(1.4)
Profit/(loss) for the year		<u>53.8</u>	<u>(3.1)</u>
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		<u>52.4</u>	<u>(7.6)</u>
Minority interests		<u>1.4</u>	<u>4.5</u>
		<u>53.8</u>	<u>(3.1)</u>

Consolidated balance sheet (unaudited)

At 31 December 2005	Notes	2005 31 December Unaudited US\$m	2004 31 December Unaudited Restated* US\$m
Non-current assets			
Intangible assets		257.5	251.9
Property, plant and equipment		482.5	477.4
Investments in joint ventures		16.4	17.8
Available-for-sale investments		3.5	4.0
Deferred tax assets		4.6	13.6
Pension surpluses		57.5	28.7
Trade and other receivables		23.4	17.1
		<u>845.4</u>	<u>810.5</u>
Current assets			
Inventories		286.9	303.1
Trade and other receivables		302.7	348.6
Available-for-sale investments		8.8	-
Cash and cash equivalents	6	77.8	136.5
		<u>676.2</u>	<u>788.2</u>
Non-current assets classified as held for sale		30.2	114.0
Total assets		<u>1,551.8</u>	<u>1,712.7</u>
Current liabilities			
Trade and other creditors		(313.5)	(311.0)
Current income tax liabilities		(4.5)	(37.0)
Bank overdrafts and other borrowings		(122.0)	(65.6)
Provisions		(150.0)	(191.1)
		<u>(590.0)</u>	<u>(604.7)</u>
Net current assets		<u>86.2</u>	<u>183.5</u>
Non-current liabilities			
Trade and other creditors		(28.0)	(2.5)
Deferred tax liabilities		(12.1)	(25.9)
Borrowings		(319.1)	(474.7)
Retirement benefit obligations:			
Funded schemes		(2.1)	(25.8)*
Unfunded schemes		(113.3)	(117.7)
Provisions		(62.6)	(43.2)
		<u>(537.2)</u>	<u>(689.8)</u>
Liabilities directly associated with non-current assets classified as held for sale		-	(58.5)
Total liabilities		<u>(1,127.2)</u>	<u>(1,353.0)</u>
Net assets		<u>424.6</u>	<u>359.7</u>
Equity			
Share capital		4.2	4.2
Share premium account		412.1	412.1
Hedging and translation reserves		5.0	8.5
Retained earnings		(23.4)	(123.9)
EQUITY SHAREHOLDERS' FUNDS	4	<u>397.9</u>	<u>300.9</u>
Minority interests	4	26.7	58.8
Total equity	4	<u>424.6</u>	<u>359.7</u>

* Retirement benefit obligations for funded schemes as at 31 December 2004 have been restated from the \$71.9 million disclosed in the interim accounts for the six months ended 30 June 2005 (see note 1).

Consolidated cash flow statement (unaudited)

For the year ended 31 December 2005	Notes	2005 Unaudited US\$m	2004 Unaudited US\$m
Cash inflow/(outflow) from operating activities			
Net cash inflow generated by operations	5	176.9	196.5
Interest paid		(36.4)	(34.0)
Taxation paid		(39.8)	(33.4)
Net cash generated from operating activities		100.7	129.1
Cash inflow/(outflow) from investing activities			
Dividends received from associates and joint ventures		2.8	1.7
Acquisition of property, plant and equipment and intangible assets		(81.3)	(91.1)
Disposal of property, plant and equipment and intangible assets		56.6	57.3
Acquisition of financial investments		(9.3)	-
Disposal of financial investments		2.4	45.0
Acquisition and disposal of businesses		5.4	(15.7)
Net cash absorbed in investing activities		(23.4)	(2.8)
Cash inflow/(outflow) from financing activities			
Issue of ordinary shares		-	135.7
Dividends paid to minority interests		(7.1)	(9.0)
Decrease in debt and lease financing		(119.5)	(250.2)
Net cash absorbed in financing activities		(126.6)	(123.5)
Net (decrease)/increase in cash and cash equivalents			
Net cash and cash equivalents at beginning of the year		113.5	88.0
Foreign exchange (losses)/gains on cash and cash equivalents		(7.1)	22.7
Net cash and cash equivalents at end of the year	6	57.1	113.5
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash and cash equivalents		(49.3)	2.8
Cash outflow from change in debt and lease financing		119.5	250.2
Change in net debt resulting from cash flows		70.2	253.0
New finance leases		(3.6)	-
Loans and finance leases disposed with subsidiaries		-	1.7
Transfer of preference shares from equity under IAS 32		(28.0)	-
Other		(3.9)	(3.4)
Foreign exchange		5.8	4.0
Decrease in net debt		40.5	255.3
Net debt at start of year		(403.8)	(659.1)
Net debt at end of year	6	(363.3)	(403.8)

Consolidated statement of recognised income and expense (unaudited)

For the year ended 31 December 2005	Notes	2005 Unaudited US\$m	2004 Unaudited US\$m
Gain on cash flow hedges		4.6	-
Exchange differences on translation of foreign operations		(6.7)	6.0
Actuarial gains in respect of retirement benefit schemes		47.4	5.1
Tax on items taken directly to equity		0.3	-
Net income recognised directly in equity		45.6	11.1
Profit/(loss) for the year		53.8	(3.1)
Transferred to profit or loss on cash flow hedges		0.8	-
Other transfers to profit or loss		(2.1)	-
Total recognised income and expense for the year	4	98.1	8.0

Attributable to:

EQUITY SHAREHOLDERS OF THE COMPANY		96.7	3.5
Minority interests		1.4	4.5
		98.1	8.0

IAS 32 and 39 transitional adjustments

(25.8)**Attributable to:**

EQUITY SHAREHOLDERS OF THE COMPANY		0.3
Minority interests		(26.1)
		(25.8)

Notes

1 Basis of preparation

Coats Group Limited is incorporated in the British Virgin Islands. It does not prepare consolidated statutory accounts and therefore the financial information contained in this announcement does not constitute full financial statements and has not been, and will not be, audited.

The financial information for the year ended 31 December 2005 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) endorsed by the European Union, and the accounting policies adopted have been consistently applied to the restated financial information presented for the year ended 31 December 2004, except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The main impact is that the preference share capital of a subsidiary undertaking which previously was classified as part of minority interests is, under IAS 32, classified as debt (see note 4).

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's income statement for the year ended 31 December 2004 and balance sheets as at 31 December 2004 and 1 January 2005 were included in the Coats Group Limited interim accounts for the six months ended 30 June 2005 published on 12 September 2005.

Subsequent to the publication of the interim accounts, management have reviewed the Group's IFRS accounting policies in the light of emerging best practice. It is considered that best practice under IAS 19 on Employee Benefits is for administration costs to be deducted annually from the expected and actual return on pension plan assets, rather than for provision to be made for the present value of these costs expected over the life of the plan. The impact is as follows:

	Unaudited US\$m
Net assets as previously reported as at 31 December 2004	313.6
IAS 19 adjustment	46.1
Restated net assets as at 31 December 2004	<u>359.7</u>

Coats Group Limited follows the accounting policies of its ultimate parent company, Guinness Peat Group plc.

The principal exchange rates (to the US dollar) used are as follows:

		2005	2004
Average	Sterling	0.55	0.55
	Euro	0.81	0.80
Year end	Sterling	0.58	0.52
	Euro	0.85	0.73

2 Operating profit is stated after charging/(crediting):

	2005 Unaudited US\$m	2004 Unaudited US\$m
Exceptional items:		
Reorganisation costs and impairment of property, plant and equipment	62.4	45.6
Profit on the sale of property	(17.2)	-
Other (see below)	(18.5)	3.8
Total	<u>26.7</u>	<u>49.4</u>

For the year ended 31 December 2005, the \$18.5 million exceptional credit represents exchange gains. The other exceptional charges arising in 2004 largely represent Group refinancing costs.

3 Taxation

	2005	2004
	Unaudited	Unaudited
	US\$m	US\$m
UK taxation based on profit for the year:		
Corporation tax at 30%	30.3	18.3
Double taxation relief	(30.3)	(18.3)
Total UK taxation	-	-
Overseas taxation:		
Current taxation	32.6	28.7
Deferred taxation	(7.9)	(11.0)
	24.7	17.7
Prior year adjustments:		
Current taxation	11.6	(2.6)
Deferred taxation	3.2	(1.4)
	14.8	(4.0)
	39.5	13.7

4 Reconciliation of closing equity

	Equity	Minority	Total
	shareholders'	interests	equity
	funds	Unaudited	Unaudited
	Unaudited	US\$m	US\$m
	Restated*	Restated*	Restated*
At 31 December 2004	300.9	58.8	359.7
Restatement for the effects of IAS 32 and IAS 39	0.3	(26.1)	(25.8)
At 1 January 2005	301.2	32.7	333.9
Total recognised income and expense for the year	96.7	1.4	98.1
Dividends paid	-	(7.1)	(7.1)
Other	-	(0.3)	(0.3)
At 31 December 2005	397.9	26.7	424.6

The restatement of minority interests for the effects of IAS 32 and IAS 39 represents the preference share capital of a subsidiary undertaking now classified as debt.

*Equity shareholders' funds and total equity as at 31 December 2004 have been increased by \$46.1 million (see note 1) from the figures disclosed in the interim accounts for the six months ended 30 June 2005 of \$254.8 million and \$313.6 million respectively.

5 Reconciliation of operating profit to net cash inflow generated by operations

	2005	2004
	Unaudited	Unaudited
	US\$m	US\$m
Operating profit	99.8	41.1
Depreciation	50.4	50.7
Amortisation of intangible assets (computer software)	5.6	5.5
Reorganisation costs (see note 2)	62.4	43.2
Impairment of property, plant and equipment (see note 2)	-	2.4
Other exceptional items (see note 2)	(35.7)	3.8
Decrease in inventories	3.9	45.0
Decrease in debtors	34.2	7.7
Increase in creditors	17.3	38.0
Provision movements	(11.7)	(6.0)
Other non-cash movements	5.0	1.4
Net cash inflow from normal operating activities	231.2	232.8
Net cash outflow in respect of reorganisation costs and other exceptional items	(54.3)	(36.3)
Net cash inflow generated by operations	176.9	196.5

6 Net debt

	2005 Unaudited US\$m	2004 Unaudited US\$m
Cash and cash equivalents	77.8	136.5
Bank overdrafts	(20.7)	(23.0)
Net cash and cash equivalents	<u>57.1</u>	<u>113.5</u>
Other borrowings	(420.4)	(517.3)
Total	<u><u>(363.3)</u></u>	<u><u>(403.8)</u></u>

7 Balance sheet consolidated by Guinness Peat Group plc (unaudited)

The balance sheet consolidated by Guinness Peat Group plc (GPG) as at 31 December 2005 differs from that disclosed as follows:

	Coats Group Limited	Coats Group Limited US\$:GBP at 0.5825	GPG fair value adjustments	Included in GPG's consolidated balance sheet
	Unaudited US\$m	Unaudited £m	Unaudited £m	Unaudited £m
Intangible assets	257.5	150	14	164
Other non-current assets	587.9	342		342
Current assets	676.2	394		394
Non-current assets classified as held for sale	30.2	18		18
Total assets	<u>1,551.8</u>	<u>904</u>	14	<u>918</u>
Current liabilities	(590.0)	(343)		(343)
Non-current liabilities	(537.2)	(313)		(313)
Minority interests	(26.7)	(16)		(16)
Equity shareholders' funds	<u>397.9</u>	<u>232</u>	14	<u>246</u>