

Guinness Peat Group plc

The following unaudited consolidated results of Coats Group Limited ("the Group") for the year ended 31 December 2007 are released by Guinness Peat Group plc ("GPG") for information only.

Richard Russell
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Coats Group Limited: unaudited results* for the year ended 31 December 2007

Financial summary

	2007 Unaudited US\$m	2006 Unaudited US\$m
Revenue	1,681.2	1,615.1
Operating profit before reorganisation, impairment and other exceptional items (see note 2)	158.1	122.4
Operating profit	118.8	79.9
Profit before taxation	95.6	57.1
Net profit attributable to equity shareholders	61.8	29.9
Net debt**	335.9	345.7
Net gearing**	63%	76%

* see note 1

** net debt and net gearing include amounts owed to GPG of \$55.0 million (2006 – nil) and are after the payment of European Commission fines cumulatively totalling \$37.7 million (2006 - \$7.9 million)

- Pre-exceptional operating profit up 29%
- Industrial thread pre-exceptional operating profit up 28%, with 12% sales growth in Asia
- Crafts pre-exceptional operating profit up 36%, with recovery in North American crafts
- Net attributable profit more than doubled to \$61.8m

Chairman's statement

Results

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

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

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

	2007	2006	2005	2004
External sales \$m				
Industrial thread & zips	1,087.6	1,030.1	996.2	987.7
Crafts	593.6	585.0	640.5	590.4
Total	1,681.2	1,615.1	1,636.7	1,578.1
Sales growth				
Industrial thread & zips	+6%	+3%	+1%	+1%
Crafts	+1%	-9%	+8%	+13%
Total	+4%	-1%	+4%	+5%
Pre-exceptional operating profit \$m				
Industrial thread & zips	132.6	103.6	68.5	49.3
Crafts	25.5	18.8	58.0	41.2
Total	158.1	122.4	126.5	90.5
Pre-exceptional operating margin				
Industrial thread & zips	12%	10%	7%	5%
Crafts	4%	3%	9%	7%
Total	9%	8%	8%	6%

Net earnings attributable to equity shareholders more than doubled to \$61.8 million, due primarily to the improvement in pre-exceptional operating profit.

Cash flow

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

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

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

Investment, reorganisation and disposals

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

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

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

European Commission Investigation

In September 2007, the European Commission concluded its investigation into European fasteners – the last part outstanding of its general investigation into thread and haberdashery markets which began in 2001. It imposed fines against several producers, including two fines against the Coats plc Group of €12.2 million and €10.3 million. Following legal advice, the Group has determined not to appeal the €12.2 million fine, which was paid in December 2007.

The €10.3 million fine is in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation. During the investigation, Coats presented the Commission with ample evidence which refuted this allegation and demonstrated that in any event a fine was time-barred. Contrary to its right under the European Convention on Human Rights, Coats was not permitted to examine the only witness who made this allegation. Coats is vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

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

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

Prospects

The consistent progress achieved by the industrial business over the last four years has fully vindicated the substantial reorganisation programme during that period. However, given the global downturn, the purchasing power of the consumer in Western markets is expected to be adversely affected, which will impact apparel and footwear sales. The global industrial thread market is therefore expected to be relatively flat in 2008. Notwithstanding this, with major restructuring projects in

Western markets largely complete, Coats will use its more competitive cost base to maintain and in some countries grow its market share, in particular within the Asian region.

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

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

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

Gary Weiss

Chairman

28 February 2008

Operating review

Industrial Trading Performance

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

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

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

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

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

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

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

Crafts Trading Performance

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

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

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

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

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

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

Investment income and finance costs

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

Tax

The tax charge of \$43.2 million (2006 - \$26.3 million) represents a rate of 45% (2006 - 46%) on pre-tax profit of \$95.6 million (2006 - \$57.1 million). Excluding prior year charges of \$1.7 million (2006 - \$7.5 million credits), the tax rate was 43% for 2007 compared to 59% in the previous year. The Group has significant losses available to reduce future tax payments once profitability, in particular in Europe, improves.

Profit from discontinued operations

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

Pension and other post-employment benefits

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

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

Balance sheet

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

Net debt (including this advance) was slightly reduced to \$335.9 million (2006 - \$345.7 million), notwithstanding the payment of the fines. Net gearing (including this advance) was 63% (2006 – 76%).

Equity shareholders' funds increased from \$434.5 million to \$517.8 million, reflecting the \$61.8 million net attributable profit plus net gains of \$21.5 million taken directly to reserves, largely in respect of exchange differences arising on the translation of operations with functional currencies other than the US dollar. Minority interests fell by \$1.1 million to \$18.4 million largely as a result of acquisitions.

Consolidated income statement (unaudited)

For the year ended 31 December 2007	Notes	2007 Unaudited US\$m	2006 Unaudited US\$m
Continuing operations			
Revenue		1,681.2	1,615.1
Cost of sales		<u>(1,086.8)</u>	<u>(1,084.8)</u>
Gross profit		594.4	530.3
Distribution costs		(303.7)	(299.9)
Administrative expenses		(179.6)	(176.4)
Other operating income		<u>7.7</u>	<u>25.9</u>
Operating profit	2	118.8	79.9
Share of profits of joint ventures		2.2	2.1
Investment income		2.6	4.4
Finance costs	3	<u>(28.0)</u>	<u>(29.3)</u>
Profit before taxation		95.6	57.1
Taxation	4	<u>(43.2)</u>	<u>(26.3)</u>
Profit from continuing operations		52.4	30.8
Discontinued operations			
Profit from discontinued operations		14.6	3.2
Profit for the year		<u>67.0</u>	<u>34.0</u>
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		61.8	29.9
Minority interests		<u>5.2</u>	<u>4.1</u>
		<u>67.0</u>	<u>34.0</u>

Consolidated balance sheet (unaudited)

At 31 December 2007	Notes	2007 Unaudited US\$m	2006 Unaudited US\$m
Non-current assets			
Intangible assets		270.6	260.9
Property, plant and equipment		520.7	510.8
Investments in joint ventures		16.1	16.2
Available-for-sale investments		4.0	4.9
Deferred tax assets		13.9	9.5
Pension surpluses		63.7	61.3
Trade and other receivables		23.1	27.6
		<u>912.1</u>	<u>891.2</u>
Current assets			
Inventories		347.4	307.6
Trade and other receivables		337.1	308.5
Available-for-sale investments		0.2	0.2
Cash and cash equivalents	7	84.6	76.4
		<u>769.3</u>	<u>692.7</u>
Non-current assets classified as held for sale		<u>2.5</u>	<u>4.8</u>
Total Assets		1,683.9	1,588.7
Current liabilities			
Amounts owed to parent undertaking		(55.0)	-
Trade and other payables		(373.4)	(328.3)
Current income tax liabilities		(11.4)	(10.6)
Bank overdrafts and other borrowings		(104.6)	(127.9)
Provisions		(162.2)	(167.1)
		<u>(706.6)</u>	<u>(633.9)</u>
Net current assets		62.7	58.8
Non-current liabilities			
Trade and other payables		(20.4)	(25.9)
Deferred tax liabilities		(17.3)	(10.7)
Borrowings		(260.9)	(294.2)
Retirement benefit obligations:			
Funded schemes		(1.8)	(1.0)
Unfunded schemes		(101.6)	(112.4)
Provisions		(39.1)	(56.6)
		<u>(441.1)</u>	<u>(500.8)</u>
Total liabilities		(1,147.7)	(1,134.7)
Net assets		536.2	454.0
Equity			
Share capital		4.2	4.2
Share premium account		412.1	412.1
Hedging and translation reserve		44.4	17.0
Retained profit		57.1	1.2
EQUITY SHAREHOLDERS' FUNDS	5	517.8	434.5
Minority interests	5	<u>18.4</u>	<u>19.5</u>
Total equity	5	536.2	454.0

Consolidated cash flow statement (unaudited)

		2007	2006
		Unaudited	Unaudited
For the year ended 31 December 2007	Notes	US\$m	US\$m
Cash inflow/(outflow) from operating activities			
Net cash inflow generated by operations	6	146.1	117.8
Interest paid		(40.4)	(37.0)
Taxation paid		(35.8)	(35.8)
Net cash generated from operating activities		69.9	45.0
Cash inflow/(outflow) from investing activities			
Dividends received from associates and joint ventures		2.3	2.3
Acquisition of property, plant and equipment and intangible assets		(68.8)	(78.3)
Disposal of property, plant and equipment and intangible assets		25.9	60.2
Acquisition of financial investments		-	(0.9)
Disposal of financial investments		0.2	8.6
Acquisition of subsidiaries		(9.8)	(10.7)
Disposal of subsidiaries		2.0	3.2
Net cash absorbed in investing activities		(48.2)	(15.6)
Cash (outflow)/inflow from financing activities			
Dividends paid to minority interests		(2.7)	(4.4)
Amounts received from parent undertaking		55.0	-
Decrease in debt and lease financing		(56.7)	(33.3)
Net cash absorbed in financing activities		(4.4)	(37.7)
Net increase/(decrease) in cash and cash equivalents			
Net cash and cash equivalents at beginning of the year		50.1	57.1
Foreign exchange gains on cash and cash equivalents		0.8	1.3
Net cash and cash equivalents at end of the year	7	68.2	50.1
Reconciliation of net cash flow to movement in net debt			
Net increase/(decrease) in cash and cash equivalents		17.3	(8.3)
Cash outflow from change in debt and lease financing		56.7	33.3
Change in net debt resulting from cash flows		74.0	25.0
New finance leases		-	(0.3)
Other		(6.8)	(3.9)
Foreign exchange		(2.4)	(3.2)
Decrease in net debt		64.8	17.6
Net debt at start of year		(345.7)	(363.3)
Net debt at end of year	7	(280.9)	(345.7)

Consolidated statement of recognised income and expense (unaudited)

For the year ended 31 December 2007	Notes	2007 Unaudited US\$m	2006 Unaudited US\$m
(Losses)/gains on cash flow hedges		(3.7)	2.2
Exchange differences on translation of foreign operations		34.4	17.0
Actuarial losses in respect of retirement benefit schemes		(4.7)	(9.4)
Tax on items taken directly to equity		(1.1)	(0.6)
Net income recognised directly in equity		24.9	9.2
Profit for the year		67.0	34.0
Transferred to profit or loss on cash flow hedges		(3.3)	(2.8)
Total recognised income and expense for the year	5	88.6	40.4
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		83.3	36.6
Minority interests		5.3	3.8
		88.6	40.4

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 2007 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 financial information presented for the year end 31 December 2006.

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:

		2007	2006
Average	Sterling	0.50	0.54
	Euro	0.73	0.79
Year end	Sterling	0.50	0.51
	Euro	0.68	0.76

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

	2007 Unaudited US\$m	2006 Unaudited US\$m
Exceptional items:		
Reorganisation costs and impairment of property, plant and equipment	40.0	51.6
Profit on the sale of property	(7.1)	(21.3)
Foreign exchange losses	6.4	12.2
Total	<u>39.3</u>	<u>42.5</u>

3 Finance costs

	2007 Unaudited US\$m	2006 Unaudited US\$m
Interest on bank and other borrowings	44.4	39.7
Net return on pension scheme assets and liabilities	(23.1)	(15.7)
Other	6.7	5.3
Total	28.0	29.3

4 Taxation

	2007 Unaudited US\$m	2006 Unaudited US\$m
UK taxation based on profit for the year:		
Corporation tax at 30%	7.6	23.0
Double taxation relief	(7.6)	(23.0)
Total UK taxation	-	-
Overseas taxation:		
Current taxation	42.3	39.2
Deferred taxation	(0.8)	(5.4)
	41.5	33.8
Prior year adjustments:		
Current taxation	-	(5.9)
Deferred taxation	1.7	(1.6)
	1.7	(7.5)
	43.2	26.3

5 Reconciliation of equity

	Equity shareholders' funds Unaudited US\$m	Minority interest Unaudited US\$m	Total equity Unaudited US\$m
At 1 January 2007	434.5	19.5	454.0
Total recognised income and expense for the year	83.3	5.3	88.6
Dividends paid	-	(2.6)	(2.6)
Other	-	(3.8)	(3.8)
At 31 December 2007	517.8	18.4	536.2

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

	2007 Unaudited US\$m	2006 Unaudited US\$m
Operating profit	118.8	79.9
Depreciation	59.3	55.8
Amortisation of intangible assets (computer software)	8.2	7.3
Reorganisation costs and impairment (see note 2)	40.0	51.6
Other exceptional items (see note 2)	(0.7)	(9.1)
Increase in inventories	(22.5)	(6.1)
(Increase)/decrease in debtors	(14.6)	9.8
Increase/(decrease) in creditors	40.1	(9.5)
Provision movements	(46.2)	(14.7)
Other non-cash movements	8.3	7.3
Net cash inflow from normal operating activities	190.7	172.3
Net cash outflow in respect of reorganisation costs and other exceptional items	(44.6)	(54.5)
Net cash inflow generated by operations	146.1	117.8

7 Net debt

	2007 Unaudited US\$m	2006 Unaudited US\$m
Cash and cash equivalents	84.6	76.4
Bank overdrafts	(16.4)	(26.3)
Net cash and cash equivalents	68.2	50.1
Other borrowings	(349.1)	(395.8)
Total net debt	(280.9)	(345.7)

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

The balance sheet consolidated by Guinness Peat Group plc (GPG) as at 31 December 2007 differs from that disclosed as follows:

	Coats Group Limited Unaudited US\$m	Coats Group Limited US\$:GBP at 0.5025 Unaudited £m	GPG fair value adjustments Unaudited £m	Included in GPG Consolidated balance sheet Unaudited £m
Intangible assets	270.6	135	14	149
Other non-current assets	641.5	322	-	322
Current assets	769.3	387	-	387
Non-current assets classified as held for sale	2.5	1	-	1
Total assets	1,683.9	845	14	859
Current liabilities	(706.6)	(355)	-	(355)
Non-current liabilities	(441.1)	(222)	-	(222)
Minority interests	(18.4)	(9)	-	(9)
Equity shareholders' funds	517.8	259	14	273