



2 August 2022

## Coats Group plc 2022 Half Year Results

***Accelerating and Transforming***  
***19% Sales growth and 180bps increase in EBIT margin***

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, announces its unaudited results for the 6 month period ended 30 June 2022.

	H1 2022	H1 2021 <sup>4</sup>	Reported	CER
Revenue	\$801m	\$703m	14%	19%
<b>Adjusted <sup>1</sup></b>				
Operating profit	\$125m	\$97m	28%	35%
Basic earnings per share	4.3c	3.3c		
Free cash flow	\$30m	\$49m		
Net debt (excl. lease liabilities)	\$195m	\$168m		
<b>Reported <sup>2</sup></b>				
Operating profit	\$111m	\$93m	19%	26%
Basic earnings per share <sup>5</sup>	3.4c	3.0c		
Net cash generated by operating activities	\$20m	\$61m		
Interim dividend per share	0.70c	0.61c		

### Financial Highlights

- Group sales growth of 19% on a CER basis (14% on a reported basis); favourable underlying market conditions in H1 alongside early pricing actions, continued supply chain agility and self-help programmes, delivered a strong performance despite high inflation;
  - Apparel & Footwear: 21% sales growth (CER); all key regions performed strongly despite some ongoing Covid impacts as we leverage our global footprint effectively
  - Performance Materials: 16% sales growth (CER); double digit growth in Personal Protection and Composites; encouraging improvement in US Yarns business
- Pricing actions across both Apparel & Footwear and Performance Materials coupled with self-help programmes to offset inflationary pressures
- Adjusted operating profit \$125 million; adjusted margins up 180bps to 15.6% and well above 2019 levels:
  - A&F adjusted operating margins 18.2% reflecting strong volumes and excellent customer service
  - PM adjusted operating margins 8.2% showing continual improvement driven by US strategic projects and operational improvements
- Adjusted EPS of 4.3c per share (reported 3.4c per share), up 30% vs 2021
- Net debt (excl. lease liabilities) of \$195 million; 0.8x leverage<sup>3</sup> supported by robust free cash flow generation
- Interim dividend of 0.70 cents per share, up 15% vs 2021; reflecting our confidence to deliver progress for the benefit of all our stakeholders in 2022 and beyond

## Strategic Highlights

- Acquisition of Texon International for \$237 million completed on 20 July, a leading footwear solutions provider strengthening the Group's existing presence in the highly attractive athleisure footwear market
- Sale of our Brazil and Argentina business completed in May; allowing further focus on accelerating profitable sales growth and delivering strategic projects in the wider Group
- Substantial momentum on strategic projects to improve margins by optimising the portfolio, footprint, and cost base efficiency; savings delivery ahead of original expectations with \$5 million delivered in H1 and \$15 million expected for the full year 2022 (original expectations \$5 - 10 million in 2022)
- Recycled product revenues up c.40% to \$65 million; 2022 Sustainability targets largely on track

## Outlook

We expect to see more normalised growth in the second half of the year as the stock replenishment of the first half gives way to more typical demand patterns. We will continue to use timely pricing actions to fully offset inflationary pressure, leveraging our unparalleled global footprint and critical position in the supply chain to serve our diversified customer base.

We are also delivering ahead of expectations on our strategic projects to transform the business. Our focus on the premium and athleisure markets in A&F, and our diversified end markets in PM, positions Coats well in the current macro-economic environment.

As a result of these factors, we now anticipate the Group's full year 2022 performance to be moderately ahead of our previous expectations.

## Commenting on the results Rajiv Sharma, Group Chief Executive, said:

*During the first half of 2022, we saw outstanding results for the Group. We have made good progress in accelerating profitable sales growth and transforming the portfolio to improve margins. Despite inflationary pressures and supply chain challenges, Coats delivered timely pricing actions, productivity and self-help programmes to deliver significantly improved margins now well beyond pre-COVID levels. I am proud of the entire Coats team for delivering very strong financial and operational results.*

*Strategic projects are well underway with one of our new facilities in Mexico expected to be fully operational by the end of 2022. We have also restructured a significant portion of our Corporate activities, moving these closer to our operations and customers. We remain on track to deliver incremental adjusted operating profit of \$50 million from these projects by 2024, with \$15 million now expected in 2022 which is ahead of our initial expectations.*

*We completed the exciting acquisition of Texon International on 20<sup>th</sup> July. Texon's focus on sustainability and innovation coupled with its exposure to the highly attractive premium athleisure market, present attractive commercial opportunities to leverage Coats' existing footprint.*

## Conference Call

Coats Management will present its half year results in a webcast at **0930 BST** today (Tuesday 2 August 2022). The webcast can be accessed via <https://www.investis-live.com/coats/62e26a65fce10e2b000b6b34/mnbv> The webcast will also be made available in archive form on [www.coats.com](http://www.coats.com).

1. *Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 14. Constant Exchange Rate (CER) are 2021 results restated at 2022 exchange rates.*
2. *Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.*
3. *Leverage calculated on a frozen GAAP basis, and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt.*
4. *Represented to reflect the results of the Brazil and Argentina business as a discontinued operation.*
5. *From continuing operations*

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**Enquiry details**

<b>Investors</b>	Nick Kidd	Coats Group plc	+44 (0)7770 735 719
<b>Media</b>	Richard Mountain / Nick Hasell	FTI Consulting	+44 (0)20 3727 1374

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**About Coats Group plc**

Coats is the world's leading industrial thread company. At home in some 50 countries, Coats has a workforce of over 17,000 people across six continents. Revenues in 2021 were US\$1.5bn. Coats provides complementary and value-adding products, services and software solutions to the apparel and footwear industries. It also applies innovative techniques to develop high technology performance materials threads, yarns, fabrics and composites in areas like personal protection, telecoms, energy, transportation, and household and recreation. Headquartered in the UK, Coats is a constituent of the FTSE 250 and FTSE4Good Index Series. It is a participant in the UN Global Compact, a member of the Ellen MacArthur Foundation, has approved short term Science Based Targets to 2030 and is committed to developing a long-term target to reach net-zero emissions by 2050, the highest level of ambition on climate change under the Science Based Target initiative. The pioneering history and innovative culture of Coats enable the delivery of its purpose to connect talent, textiles and technology to make a better and more sustainable world. For further information go to [www.coats.com](http://www.coats.com).

**Cautionary statement**

Certain statements in this half year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## **Group Chief Executive's review**

### **Accelerating and Transforming**

Our focus is to accelerate profitable sales growth, and transform the Company to be even more successful in a post-pandemic world.

The first half of 2022 has seen outstanding results for the Group as we continued to accelerate profitable growth and build on our position as the global market leader. The Group saw the momentum witnessed in Q4 2021 continue with sales 19% higher year on year on a CER basis. Apparel & Footwear ("A&F") delivered 21% growth driven by pricing actions, industry inventory restocking, buffer buying to support supply chain disruption and continued underlying market recovery. Performance Materials ("PM") growth of 16% was driven by strong pricing and double digit growth in both Personal Protection and Composites.

The supply chain issues that were seen in 2021 persisted into 2022, and have been exacerbated by the war in Ukraine. Our unparalleled global footprint, and focus on customer imperatives of speed, quality and flexibility, enabled Coats to address strong first half demand while simultaneously mitigating inflationary pressures through pricing and productivity initiatives, highlighting the critical role that thread plays in the manufacturing process and overall value and reliability we provide to our customers. Rolling lockdowns in China were managed through the rotational use of our four factories while H1 year on year performance benefited from our India operation being fully operational compared to the same period last year.

The Group delivered adjusted operating profit of \$125 million (reported \$111 million) and adjusted operating margin of 15.6%, which were comfortably above 2019 levels. A&F adjusted operating margins were 18.2%, while PM delivered an improvement to 8.2% which was continued positive progress and driven by actions to address labour availability issues in the US as well as the commencement of our strategic projects. Non-US PM margins remain healthy double digits.

Coats has a strong track record of cash conversion and this has continued in 2022 with a robust adjusted Free Cash Flow for the period of \$30 million, despite normal H1 working capital cycle outflows (ahead of inflows in H2). This resulted in net debt (excluding operating leases) increasing to \$195 million and a leverage of 0.8x. Proforma leverage post completion of the Texon acquisition remains comfortably within the 1.0x to 2.0x target range, and is expected to reduce further as both the Coats and Texon business deliver strong cash generation.

Our programme of transformation saw significant activity in the first half of 2022 including:

- Acquisition of Texon
- Sale of our Brazil and Argentina business
- Exit from Russia
- Exit of direct operations in South Africa
- Significant momentum on strategic projects.

### **Acquisition of Texon**

The acquisition of Texon was completed on 20 July for an enterprise value of \$237 million and a total net cash contribution of \$211 million. Texon supplies high quality structural components, including heel counters, toe puffs and insoles, to the global footwear market.

A market leader in innovation and sustainability, and supplying to the world's leading brands, Texon presents attractive commercial opportunities to leverage Coats' existing footprint and strengthen our existing presence in the highly attractive athleisure footwear market.

Texon has targeted zero-waste by 2025 to complement its suite of sustainable product offerings which include Vogue, Reform 2.0 and Verde. In addition to footwear components, Texon has complementary offerings for consumer applications, including plant-based leather alternatives, and the recently launched ProWeave, a revolutionary knitted and woven material for footwear uppers.

Texon is expected to deliver high single digit growth in an attractive and fragmented market. In 2021, it generated revenue of \$132 million.

### **Sale of Brazil and Argentina business**

We completed the disposal of our business in Brazil and Argentina in May. As a result of the disposal and the reclassification of results to discontinued operations there has been a positive annualised impact of circa 50bps uplift to the Group's adjusted operating margins.

The exit from the Brazil and Argentina business is in line with Coats' strategic initiatives, announced in March, to accelerate profitable sales growth and transform the company.

### **Strategic projects**

In March this year we announced that the Group has commenced a number of strategic projects to improve margins by optimising the portfolio and footprint, mitigating structural labour availability issues in the US and improving the overall cost base efficiency. The resulting benefits are anticipated to deliver incremental adjusted operating profit of \$50 million by 2024.

#### *Optimising the portfolio and footprint and mitigating structural labour availability issues in the US*

A number of our strategic initiatives are in relation to optimising our portfolio and footprint, as well as specifically mitigating structural labour availability issues in the US. The majority of these benefits will come from the establishment of new state of the art facilities in Mexico, and during the first half of 2022 we have moved quickly and the initial development is now well progressed in terms of fit-out and machinery. We are in the process of hiring and training the work force required to run the facility and we expect operations to commence in October with a full ramp up expected by the end of the year.

In addition we are making some smaller changes to our footprint tail to optimise operations outside of the US. For example we recently announced the closure of our Poland warehouse with all warehouse operations being moved to Romania. We have also exited direct operations in South Africa and all operations in Russia, at minimal cost to the business.

The financial benefits of these projects will largely be seen in 2023 and 2024.

#### *Improving the overall cost base efficiency*

A further key focus of our strategic projects is improving the overall cost base efficiency of the Group, in particular focusing on our higher cost locations (UK and US). In the first half of 2022 we reviewed our cost base and many of our corporate activities, and as a result have moved these closer to the operations and customers. We have made significant positive progress in this area during the period and have achieved savings of \$5 million in H1 with a further \$10 million expected to be achieved in H2 giving a total saving of \$15 million for FY 2022, which is above our initial guidance of between \$5 - \$10 million in 2022.

Strategic project costs of \$10 million have been incurred to date and primarily consist of cash severance costs of \$7 million and non-cash right-of-use asset impairment charges in relation to UK and US office exits of \$2 million.

The overall expectation for strategic project benefits remains an incremental \$50 million adjusted operating profit, by 2024, with the cash costs to achieve these of \$35 million.

### **Strategic enablers: Sustainability, Digital and Innovation**

Our strategic enablers of Sustainability, Digital and Innovation continue to underpin our strategy to accelerate profitable sales growth and to deliver sustainable stakeholder value.

## **Sustainability**

A key part of our company purpose is to make a better and more sustainable world. When we launched our sustainability strategy, 'Pioneering a sustainable future', in 2019, we laid out ambitious targets for 2022 and 2024. In 2021, we increased momentum and competitive advantage by further evolving our sustainability strategy:

- Net Zero: By 2030, 70% of our global energy consumption will come from renewables
- Eco materials: By 2030, all Coats products will be made completely independently of new oil-extraction materials such as polyester and nylon
- Circularity: We will shift to circularity, creating products and packaging solutions that enable recycling and reuse, both within our own operations and across the wider garment industry

2022 is the year that our original sustainability targets mature. We are making strong progress and at the half year we are largely on track to be able to deliver on them by year end.

We have made especially strong progress in water and waste where our teamwork during 2022 under our Cleaner and Lighter programme established numerous projects that are now delivering results in multiple geographies. For example, at H1 2022 we have reduced our global water usage by 37% since FY 2018 versus our target of 40% by end 2022. The benefits in water reduction come mainly from challenging established practices and finding ways to stretch the capabilities of our machinery to work more efficiently. We have managed to significantly reduce waste by focussing on circular use of materials that previously entered waste streams, both in our internal processes and in liaison with our suppliers and customers. In both these areas we are now close to achieving our year-end target, ahead of schedule.

Having already achieved our energy intensity target in 2021 we have continued to make progress and have achieved a further 3% reduction in the last six months. We continue to implement a number of energy saving projects, and our detailed consumption monitoring programme is now operational across many of our major sites and is delivering savings opportunities.

Our recycled products achieved sales of \$65 million in H1 2022 (up c.40% vs 2021) and we are actively extending the programme beyond those key brands who were the earliest adopters to the wider market, as demand continues to be significant.

## **Digital**

In 2022, our Digital & Technology priorities are centred around enhancing our cybersecurity and leveraging our recent investments to improve customer experience even further. This year, Coats is increasing investments in next generation cybersecurity tools and adding headcount in this critical area to reinforce our defences against the increasing cybersecurity threat landscape. In recent years, Coats has made considerable investments to improve customer experience. Our current projects include the enhancement of our ordering and the testing of a video-based service to provide real time technical support to customers.

## **Innovation**

We continue to create innovative new solutions to solve our customers' current and emerging challenges. In H1 2022 we launched 11 new products across both A&F and PM (H1 2021: 12 new products), delivering incremental revenues of \$12.1 million (FY 2021: \$11.4 million).

The first six months of 2022 has seen further progress with various product offerings, including:

- Eco Cycle; a thread for garment disassembly was launched in February. Eco Cycle is an industry first cradle to cradle platinum certified sewing thread for the circular economy. There are currently more than 20 projects or customer pilots in progress with several brands.
- Gotex FGU; a more sustainable fiberglass strength member for fiberoptic cables with the added benefit of lower manufacturing costs driven by lower energy and chemical utilisation.
- StremX Hybrid; a hybrid yarn with tailored mechanical properties using two different high-performance fibres to achieve high strength and connectivity in fibre optic cables.
- Firestrong; a unique yarn technology that enables the development of lighter weight fabrics while maintaining the same thermal and equal strength properties. For firefighting applications this will allow fabrics to be developed without the need for continuous filament meta/para Aramid yarns, which are more expensive and often difficult to source.

**Dividend**

The Board is mindful of the importance of returns to shareholders and, as a result of the excellent first half performance, and ongoing confidence in the strategy, it is pleased to declare an interim dividend of 0.70 cents per share, up 15% vs the 2021 interim dividend (0.61c). The interim dividend will be paid on 16 November 2022 to ordinary shareholders on the register at 21 October 2022, with an ex-dividend date of 20 October 2022. The proposed full year dividend will be announced in March 2023 alongside the Full Year 2022 results.

**Outlook**

We expect to see more normalised growth in the second half of the year as the stock replenishment of the first half gives way to more typical demand patterns. We will continue to use timely pricing actions to fully offset inflationary pressure, leveraging our unparalleled global footprint and critical position in the supply chain to serve our diversified customer base.

We are also delivering ahead of expectations on our strategic projects to transform the business. Our focus on the premium and athleisure markets in A&F, and our diversified end markets in PM, positions Coats well in the current macro-economic environment.

As a result of these factors, we now anticipate the Group's full year 2022 performance to be moderately ahead of our previous expectations.

## Operating review

	H1 2022 vs H1 2021				
	H1 2022	H1 2021 <sup>3</sup>	H1 2021 CER <sup>1</sup>	Inc / (dec)	CER <sup>1</sup> inc/(dec)
	\$m	\$m	\$m	%	%
<b>Revenue <sup>2</sup></b>					
<b>By segment</b>					
A&F	587	507	486	16%	21%
PM	214	196	185	9%	16%
<b>Total</b>	<b>801</b>	<b>703</b>	<b>671</b>	<b>14%</b>	<b>19%</b>
<b>By region</b>					
Asia	475	407	401	17%	19%
Americas	172	153	152	12%	13%
EMEA	154	143	118	8%	31%
<b>Total</b>	<b>801</b>	<b>703</b>	<b>671</b>	<b>14%</b>	<b>19%</b>
<b>Adjusted operating profit <sup>2</sup></b>					
<b>By segment</b>					
A&F	107	85	82	26%	30%
PM	18	12	10	48%	77%
<b>Total adjusted operating profit</b>	<b>125</b>	<b>97</b>	<b>92</b>	<b>28%</b>	<b>35%</b>
Exceptional and acquisition related items	(13)	(4)	(4)		
<b>Operating profit</b>	<b>111</b>	<b>93</b>	<b>89</b>	<b>19%</b>	<b>26%</b>
<b>Adjusted operating margin <sup>2</sup></b>					
<b>By segment</b>					
A&F	18.2%	16.8%	16.9%	140bps	130bps
PM	8.2%	6.1%	5.4%	220bps	280bps
<b>Total</b>	<b>15.6%</b>	<b>13.8%</b>	<b>13.7%</b>	<b>170bps</b>	<b>180bps</b>

<sup>1</sup> Constant Exchange Rate (CER) are 2021 results restated at 2022 exchange rates.

<sup>2</sup> On an adjusted basis which excludes exceptional and acquisition-related items.

<sup>3</sup> Represented to reflect the results of the Brazil and Argentina business as a discontinued operation.

## H1 2022 Operating Results overview

Group revenues of \$801 million increased 14% vs 2021 on a reported basis, and 19% on a CER basis. This was driven by pricing actions to offset ongoing heightened inflationary pressures, a continued strong market recovery, and benefitting from brands, retailers and manufacturers building back inventory levels post the Covid pandemic and increased buffer stock buying in anticipation of supply chain challenges continuing.

Group adjusted operating profit of \$125 million increased 35% (2021: \$97 million), with operating margins up 180bps to 15.6% (2021: 13.8%). On a reported basis operating profit was \$111 million (2021: \$93 million).

Adjusted earnings per share ('EPS') for the period increased to 4.3 cents (2021: 3.3 cents) as operating profits grew significantly as a result of the volume growth in the period and delivery of savings from the strategic projects, alongside a reduction in the underlying effective tax rate.



## **Apparel & Footwear ('A&F')**

Our A&F business benefited from strong pricing/mix to offset inflationary pressures, along with industry inventory restocking, buffer buying to support supply chain disruption and continued underlying market recovery. In addition to these industry dynamics we have continued to leverage our key customer relationships, strong sustainability credentials, market-leading product ranges and technical services, and its flexibility and agility in a turbulent supply chain environment.

The division saw strong growth of 21% on a CER basis (16% reported), demonstrating the flexibility of our global footprint and ability to support customers during the Covid recovery and ongoing uncertainty in global supply chains. Our global accounts programme, in which we dedicate customer relationship resources to our key brands and retailers, saw significant new customer and programme wins; sales growth with Inditex and Ralph Lauren was driven by recycled thread, specification wins with Uniqlo and J Crew, and increased business with Nike and VF.

All of our regions (US, Europe and Asia) benefited from positive end market sentiment led by our ongoing ability to supply. Trends towards Sports and Athleisure as well as casualisation continued to accelerate whilst online adoption, a shift towards premium products and supply chain digitisation advanced further. Supplier consolidation, nearshoring and the customer need for speed were also prominent trends and unsurprisingly, our customers continue to place increasing emphasis on their own sustainability agendas.

All of the key A&F sub-segments had strong revenue growth in 2022; A&F thread up 21%, Zips and Trims up 28%, and Coats Digital up 13%.

Adjusted operating profit for A&F increased 30% vs 2021. Adjusted operating margin was up 130bps to 18.2% vs 2021. This was as a result of excellent commercial and operational delivery, increased volumes and improved factory utilisation, pricing actions and procurement self-help initiatives more than offsetting heightened inflationary pressures.

## **Performance Materials ('PM')**

From 2022 the Group has divided PM into Personal Protection (c.40% of divisional revenue), Composites (c.25%) and Performance Thread (c.35%). Performance Thread will be made up of the majority of the former Household & Recreation, Transportation and Other Industrial Applications sub-segments. The medium-term growth rates expected for each sub-segment are high single digits for Personal Protection, double-digit for Composites, and global GDP growth for Performance Thread. There is no change to the overall growth expectations of the division of mid-high single digit growth medium term.

The division saw further customer share gains as well as new customer wins across all sub-segments, such as composite floorboards for GM and seat trims for Mercedes Benz EV platform, as end market sentiment picked up.

Overall, PM revenues grew 16% on a CER basis (9% reported), which was driven primarily by price increases required to offset inflation. Revenue growth performance vs 2021 was underpinned by strong demand in Composites (up 29%) despite some supply chain issues in EMEA, and Personal Protection (up 28%) again due to strong demand but also operational improvements in the US yarns business. Performance Thread was flat vs 2021 due to weaker consumer demand in Household and Recreation and labour availability issues in the US, while ongoing operational issues in the US are being addressed.

Adjusted operating profit increased 77% on a CER basis to \$18 million and at an adjusted operating margin level, PM margins were up 280 bps to 8.2%. PM margins for the period continued to trend upwardly, and whilst still impacted in the US by labour availability issues and labour inflation, US margins have improved significantly due to the positive impact of the strategic project actions that have started to take effect in the period. Excluding the US business, PM margins were healthy double digit, albeit slightly lower than 2021 (14%) as result of specific temporary supply chain disruption issues within EMEA.

## **Geographical performance**

We saw strong growth vs 2021 across all regions driven by pricing actions, improving end market sentiment, industry restocking and Coats' strong customer proposition.

In Asia, we saw revenue increase by 19%, driven by key A&F markets. We saw strong recovery in our India market following significant Covid disruption in 2021. Indonesia and Bangladesh were notable performers in the period as exporter demand was very buoyant, and our smaller markets of Sri Lanka and Pakistan delivered well despite macro-economic uncertainties within those countries as they remained attractive sourcing markets. Our largest markets of China and Vietnam were both impacted to some extent by Covid disruption in the period, either directly through localised lockdowns in China, or the resulting supply chain disruption in Vietnam. Despite this, these markets still delivered strong year on year growth, demonstrating their resilience as global sourcing markets.

Our Americas business saw revenues grow by 13% vs 2021 with strong performance in Colombia, Honduras and Mexico. In addition, our US Personal Protection business performed well as demand remained strong and operational delivery improved significantly, whereas the Performance Thread business remained broadly flat.

In Europe, we saw revenues grow by 31% vs 2021 on a CER basis. This strong performance was driven by positive momentum in PM in telecom composites and transportation as fibre optic sales remained robust. In A&F, Zips saw strong demand during the period. The CER sales growth in the region also benefited from foreign exchange in Turkey as a result of the weakening Turkish Lira and our ability to continue to price largely in USD, and the impact of the adoption of hyperinflation accounting in that territory.

## Financial Review

### Revenues

Group revenues increased 14% on a reported basis and 19% on a CER basis, as all key markets performed strongly in the period. All commentary below is on a CER basis unless otherwise mentioned.

Revenues and profitability in 2021 had already returned to pre-Covid levels (2019) so commentary below focuses on year-on-year performance only.

### Operating profit

At a Group level, adjusted operating profit increased from \$97 million in 2021 to \$125 million and adjusted operating margins were up 180bps to 15.6%. The table below sets out the movement in adjusted operating profit during the year:

	\$m	Margin %
<b>2021 adjusted operating profit</b>	<b>97</b>	<b>13.8%</b>
Volumes impact (direct and indirect)	17	
Price/mix	57	
Raw material inflation	(36)	
Freight inflation	(7)	
Other cost inflation (e.g. labour, energy)	(22)	
Productivity benefits (manufacturing and sourcing)	12	
Strategic projects savings	5	
Others (e.g. FX)	2	
<b>2022 adjusted operating profit</b>	<b>125</b>	<b>15.6%</b>
Exceptional and acquisition related items	(13)	
<b>2022 reported operating profit</b>	<b>111</b>	<b>13.9%</b>

The direct and indirect volume impact of the significant demand recovery referred to earlier was a tailwind on profits and margins in the period, as the increased utilisation of factories led to efficient recovery of manufacturing overheads.

As a result of increasing oil prices in the latter part of 2020, and throughout 2021 and 2022, we saw year-on-year inflationary headwinds on raw material costs, sea freight as a result of container availability, and other costs such as labour and energy. As in previous periods we were successful in mitigating these inflationary pressures with productivity benefits and pricing / surcharges. We expect these inflationary pressures to continue throughout 2022; the pricing actions taken to date position us well to continue to offset these as our past track record has clearly demonstrated.

SD&A costs have continued to be controlled well and remain broadly flat year-on-year. Despite an increase in distribution costs as a result of the higher volumes, and continued inflation of our cost base, we have maintained a tight cost focus and also benefited from the initial \$5 million of savings in relation to our strategic projects that commenced in late 2021.

As a result of these factors, the Group's adjusted operating margins significantly increased to 15.6% (2021: 13.8%).

On a reported basis, Group operating profit (including exceptional and acquisition-related items) was \$111 million (2021: \$93 million). See below for a breakdown of these exceptional items. Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to above is on an adjusted basis only.

## **Foreign exchange**

As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. For the half year, the impact was headwinds of 5% on sales and 7% on adjusted operating profit. These headwinds were primarily due to depreciation in the Euro, Indian Rupee, Pakistan Rupee and Thai baht and the year-on-year translation impacts arising, but also in part due to initial the adoption of hyperinflation accounting in Turkey. At current exchange rates (30 June 2022) we expect c.3 - 4% translation headwinds at the Full Year (excluding any future hyperinflation impact which is difficult to forecast).

## **Free cash flow**

The Group delivered an adjusted free cash flow of \$30 million in the period (2021: \$49 million). This was a robust performance, despite being behind 2021, which benefited from certain non-recurring items for example the non-payment of staff bonuses as a result of the Covid-impacted performance in 2020. Capital expenditure has remained disciplined (\$16 million) and working capital has been well controlled despite some investment in inventory levels (up \$19 million year-on-year) to support our service levels during the strong demand recovery, as well as the upward inflation pressures on purchases. In line with normal working cycles we expect working capital inflows to occur in the second half of the year.

## **Non-operating results**

Adjusted earnings per share ('EPS') for the period increased to 4.3 cents (2021: 3.3 cents). This increase was due to the significant increase in adjusted profit before tax (up from \$88 million to \$110 million), and a continued improvement in the effective tax rate to 30% (H1 2021: 31%). The increase in adjusted profit before tax was due to the increase in adjusted operating profit (\$28 million increase), with some offset from a net finance charge which was \$5 million higher year-on-year (see below for further details).

Net finance costs in the period were \$15.3 million (pre-exceptional), a \$5 million increase year-on-year (2021: \$9.9 million). The key drivers of the increase in the year were a \$0.6 million increase in interest on bank borrowings due to increasing interest rates on the floating elements of debt. In addition, there was a \$7 million adverse movement year on year in relation to foreign exchange rate movements, largely as a result of Sterling weakness during the period end (where we hedge a number of costs and cash flows). These were partially offset by a \$1.8 million decrease in interest on pension scheme liabilities as a result of the surplus position on an IAS19 basis as at 31 December 2021.

The taxation charge for the period was \$33.1 million (2021: \$27.4 million). Excluding the impact of exceptional and acquisition-related items and the impact of IAS19 finance charges, the effective tax rate on pre-tax profit was 30% (H1 2021: 31%).

The reported tax rate was 34% (H1 2021: 32%), which includes the impact of exceptional and acquisition related items.

Profit attributable to minority interests was \$14.6 million and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests in both). This was 15% above the 2021 level (\$12.8 million), but lower than the overall adjusted operating profit growth for the Group (up 28% on 2021 on a reported basis), which reflects the relative strength of performance of those markets during the period (in particular ongoing Covid supply chain disruption in Vietnam).

## **Exceptional and acquisition-related items**

Net exceptional and acquisition-related items before taxation were \$13.3 million (2021: \$3.7 million). These include strategic project costs of \$9.8 million and acquisition-related items of \$3.5 million.

Strategic project costs of \$9.8 million relate to the commencement of a number of strategic initiatives during 2021; and primarily consist of cash severance costs of \$7 million and non-cash right-of-use asset impairment charges in relation to UK and US office exits of \$2 million.

Acquisition-related items of \$3.5 million consisted of the amortisation of intangible assets acquired in previous acquisitions (\$1.6 million), and transaction costs in relation to the initial costs of the acquisition of Texon announced in July.

**Discontinued items**

On 10 May, it was announced that Coats had signed an agreement to sell its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. This sale was subsequently completed on 27 May 2022.

As a result of the strategic exit from Brazil and Argentina, the operating results of the business prior to sale has been reported within discontinued operations during the current and prior years (current year operating losses of \$3 million), which has resulted in an overall increase to Group operating margins of around 50bps.

As a result of the deal, we have disposed of net assets of \$49 million (of which \$44 million relates to working capital) for a cash payment to the purchaser and fees of \$19 million. In addition, \$15 million of historic FX losses have been recycled to discontinued operations. This loss on disposal resulted in an overall \$23 million loss for the period for the Group (H1 2021: profit \$62 million).

An exit from the Brazil and Argentina business is in line with Coats' strategic initiatives, announced in March, to accelerate profitable sales growth and transform the company.

**Cash flow**

The Group delivered \$30 million of adjusted free cash flow in the period (2021: \$49 million). Free cash flow is measured before annual pension deficit recovery payments, acquisitions and dividends, and excludes exceptional items.

Adjusted free cash flow performance was below 2021 largely as a result of some non-recurring cash benefits in 2021, for example the non-payment of staff bonuses for 2020, as well as an increased but albeit well controlled net working capital outflow (\$48 million outflow) driven by a number of inflationary pressures on our cost base and an investment in inventory to support supply chain disruption. It is noted that our annual adjusted free cash flows are typically weighted to H2 as a result of normal working capital cycles we see during the year.

Capital expenditure was above 2021 (\$13 million) at \$16 million, as we maintain a selective approach to investing in the most appropriate growth opportunities. Minority dividend payments of \$8 million were incurred (2021: \$13 million) which relate to the repatriation of cash from local operations to the Group. Tax paid was \$28 million, slightly above 2021, largely due to some timing benefits in 2021.

The Group delivered a free cash outflow of \$49 million in the period (2021: \$13 million inflow), which primarily reflects the adjusted free cash flow of \$30 million, offset by UK pension payments of \$23 million (being \$17 million of ongoing deficit recovery payments and administrative expenses, and \$6 million catch up of deferred 2020 payments), shareholder dividends (\$22 million), exceptional costs of \$10 million, cash outflows regarding the sale of Brazil and Argentina business (\$9 million discontinued operations, and \$15 million payment to buyer).

As a result of the above free cash flow, net debt (excluding the impact of lease liabilities) as at 30 June 2022 was \$195 million (31 December 2021: \$147 million). Including the impact of lease liabilities, net debt as at 30 June 2022 was \$284 million (31 December 2021: \$246 million).

**Capital expenditure**

Capital expenditure for the period was \$16 million (2021: \$13 million). In order to continue to support our longer-term growth strategy and further reinforce our strong environmental compliance credentials, we anticipate capital expenditure to be in the \$35-45 million range for 2022, as previously guided.

## **Pensions and other post-employment benefits**

The net surplus for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS19 financial reporting basis, was \$189 million as at 30 June 2022, which was \$168 million higher than 31 December 2021 (\$21 million surplus). This increase was primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 30 June 2022 of \$268 million (31 December 2021: \$108 million; 30 June 2021: \$19 million). The increase in the surplus during the six months ended 30 June 2022 of \$160 million predominantly relates to net actuarial gains of \$160 million (higher discount rate due to significantly higher corporate bond yields offset to some extent by asset losses due to the high degree of hedging in place in the portfolio), employer contributions (excluding administrative expenses) of \$20 million offset by foreign exchange translation movements.

### *UK triennial update*

The effective date for the latest UK scheme triennial valuation was 31 March 2021. This valuation was successfully completed and agreed with the Trustees during the prior year, ahead of schedule, with a resulting Technical Provisions deficit of £193 million which is £59 million lower than the previously agreed valuation in 2018. As a result of this valuation, future contributions remain at the previously agreed levels of £22 million (\$27 million) per annum (indexing) up until 2028, and result in the pay down of the deficit slightly earlier than originally planned. The Group will continue to pay the scheme administrative expenses and levies of around \$5 million per annum. Together with the remaining catch up of deferred 2020 contributions, 2022 payments are expected to be around \$44 million.

We continue to maintain strong and collaborative relations with the scheme around strategic planning and have established a joint working group between the Company and Trustees to review further opportunities for de-risking the scheme, beyond the significant positive progress that has already taken place in this area.

## **Balance sheet and liquidity**

Group net debt (excluding lease liabilities) as at 30 June 2022 was \$195 million (\$285 million including lease liabilities), which was higher than 31 December 2021 (\$147 million), and reflects disciplined cash management as noted above, offset by payments in relation to the sale of the Brazil / Argentina business, ongoing pension deficit repair payments, shareholder dividends and exceptional cash costs in relation to strategic projects.

At 30 June 2022, our leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 0.8x and remains well within our 3x covenant limit, and slightly below the lower end of our target leverage range of 1-2x. Our interest cover covenant also maintained significant headroom at 30 June 2022 at 24.8x vs a covenant of 4x. These covenants are tested twice annually at June and December, and are monitored throughout the year. Committed headroom on our banking facilities was approximately \$240 million at 30 June.

As a result of the Texon acquisition completed in July, our proforma leverage remains comfortably within our target leverage range of 1-2x.

## **Going concern**

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for at least the next 12 months and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements. Further details of our going concern assessment, financial scenarios and conclusions can be seen in note 1.

## **INDEPENDENT REVIEW REPORT TO COATS GROUP PLC**

### **Conclusion**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 21.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### **Basis for Conclusion**

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statement of the group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting, as adopted by the UKEB.

### **Conclusion Relating to Going Concern**

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

### **Responsibilities of the directors**

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the review of the financial information**

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

## **INDEPENDENT REVIEW REPORT TO COATS GROUP PLC (continued)**

### **Use of our report**

This report is made solely to the company in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### **Deloitte LLP**

Statutory Auditor  
London, United Kingdom  
1 August 2022



## Condensed consolidated financial statements

### Condensed consolidated income statement For the half year ended 30 June 2022

Half year 2022				Half year 2021*		Full year 2021*	
Note	Before exceptional and acquisition related items unaudited US\$m	Exceptional and acquisition related items (note 3) unaudited US\$m	Total unaudited US\$m	Before exceptional and acquisition related items unaudited US\$m	Exceptional and acquisition related items (note 3) unaudited US\$m	Total unaudited US\$m	Total audited US\$m
Continuing operations							
Revenue	801.5	-	801.5	703.3	-	703.3	1,446.7
Cost of sales	(540.0)	-	(540.0)	(470.1)	-	(470.1)	(979.3)
Gross profit	261.5	-	261.5	233.2	-	233.2	467.4
Distribution costs	(62.5)	-	(62.5)	(58.3)	-	(58.3)	(125.1)
Administrative expenses	(74.3)	(13.3)	(87.6)	(77.8)	(3.7)	(81.5)	(164.1)
Operating profit	124.7	(13.3)	111.4	97.1	(3.7)	93.4	178.2
Share of profit of joint ventures	0.7	-	0.7	0.7	-	0.7	1.2
Finance income	40.2	-	0.2	0.2	-	0.2	0.4
Finance costs	5(15.5)	-	(15.5)	(10.1)	-	(10.1)	(21.8)
Profit before taxation	110.1	(13.3)	96.8	87.9	(3.7)	84.2	158.0
Taxation	6(33.1)	0.5	(32.6)	(27.4)	0.1	(27.3)	(53.1)
Profit from continuing operations	77.0	(12.8)	64.2	60.5	(3.6)	56.9	104.9
(Loss)/profit from discontinued operations	13(3.7)	(83.6)	(87.3)	(2.0)	7.1	5.1	3.7
Profit/(loss) for the period	73.3	(96.4)	(23.1)	58.5	3.5	62.0	108.6
Attributable to:							
Equity shareholders of the company	58.6	(96.3)	(37.7)	45.7	3.5	49.2	88.9
Non-controlling interests	14.7	(0.1)	14.6	12.8	-	12.8	19.7
	73.3	(96.4)	(23.1)	58.5	3.5	62.0	108.6
Earnings/(loss) per share (cents)	7						
Continuing operations:							
Basic			3.40			3.03	5.84
Diluted			3.39			3.03	5.82
Continuing and discontinued operations:							
Basic			(2.58)			3.38	6.10
Diluted			(2.58)			3.38	6.07
Adjusted earnings per share	14 (d)	4.27		3.28			7.17

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Condensed consolidated statement of comprehensive income**  
**For the half year ended 30 June 2022**

	Half year 2022 unaudited US\$m	Half year 2021 unaudited US\$m	Full year 2021 audited US\$m
<b>(Loss)/profit for the period</b>	<b>(23.1)</b>	62.0	108.6
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial gains in respect of retirement benefit schemes (note 15)	<b>160.4</b>	134.2	212.8
Tax relating to items that will not be reclassified	-	-	(1.0)
	<b>160.4</b>	134.2	211.8
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of foreign operations	<b>(33.7)</b>	(5.3)	(17.0)
Exchange differences transferred to income statement on sale of business (note 13)	<b>15.0</b>	-	-
<b>Other comprehensive income and expense for the period</b>	<b>141.7</b>	128.9	194.8
<b>Net comprehensive income and expense for the period</b>	<b>118.6</b>	190.9	303.4
Attributable to:			
<b>Equity shareholders of the company</b>	<b>104.6</b>	178.3	284.2
Non-controlling interests	<b>14.0</b>	12.6	19.2
	<b>118.6</b>	190.9	303.4

**Condensed consolidated statement of financial position**  
**At 30 June 2022**

	Note	30 June 2022 unaudited US\$m	30 June 2021 unaudited US\$m	31 December 2021 audited US\$m
<b>Non-current assets</b>				
Intangible assets		278.8	285.0	282.9
Property, plant and equipment		231.7	248.2	244.5
Right-of-use assets	11 (g)	80.7	90.1	91.6
Investments in joint ventures		12.7	11.7	12.0
Other equity investments		5.9	6.0	6.0
Deferred tax assets		20.6	24.0	20.7
Pension surpluses	15	309.3	71.5	159.7
Trade and other receivables		14.6	25.7	28.7
		<u>954.3</u>	<u>762.2</u>	<u>846.1</u>
<b>Current assets</b>				
Inventories		245.4	226.0	250.1
Trade and other receivables		301.2	331.2	302.7
Other investments		0.1	0.1	-
Pension surpluses	15	5.2	4.8	5.2
Cash and cash equivalents	11 (g)	140.4	85.7	107.2
		<u>692.3</u>	<u>647.8</u>	<u>665.2</u>
<b>Total assets</b>		<u>1,646.6</u>	<u>1,410.0</u>	<u>1,511.3</u>
<b>Current liabilities</b>				
Trade and other payables		(328.2)	(342.4)	(346.8)
Current income tax liabilities		(19.8)	(16.9)	(16.5)
Bank overdrafts and other borrowings		(4.2)	(17.2)	(19.2)
Lease liabilities		(17.1)	(16.1)	(17.8)
Retirement benefit obligations:				
- Funded schemes	15	(31.6)	(42.3)	(41.9)
- Unfunded schemes	15	(5.6)	(6.7)	(6.1)
Provisions		(10.6)	(6.7)	(8.1)
		<u>(417.1)</u>	<u>(448.3)</u>	<u>(456.4)</u>
<b>Net current assets</b>		<u>275.2</u>	<u>199.5</u>	<u>208.8</u>
<b>Non-current liabilities</b>				
Trade and other payables		(24.2)	(20.5)	(24.2)
Deferred tax liabilities		(8.9)	(11.4)	(6.8)
Borrowings		(331.3)	(236.2)	(235.1)
Lease liabilities		(71.5)	(80.5)	(81.2)
Retirement benefit obligations:				
- Funded schemes	15	(4.2)	(6.4)	(5.6)
- Unfunded schemes	15	(84.5)	(97.0)	(90.2)
Provisions		(23.7)	(27.8)	(27.7)
		<u>(548.3)</u>	<u>(479.8)</u>	<u>(470.8)</u>
<b>Total liabilities</b>		<u>(965.4)</u>	<u>(928.1)</u>	<u>(927.2)</u>
<b>Net assets</b>		<u>681.2</u>	<u>481.9</u>	<u>584.1</u>
<b>Equity</b>				
Share capital	8	90.1	90.1	90.1
Share premium account		10.5	10.5	10.5
Own shares	8	(0.3)	(2.6)	(0.5)
Translation reserve		(123.8)	(94.3)	(105.7)
Capital reduction reserve		59.8	59.8	59.8
Other reserves		246.3	246.3	246.3
Retained profit		361.0	143.7	252.5
<b>Equity shareholders' funds</b>		<u>643.6</u>	<u>453.5</u>	<u>553.0</u>
Non-controlling interests		37.6	28.4	31.1
<b>Total equity</b>		<u>681.2</u>	<u>481.9</u>	<u>584.1</u>

**Condensed consolidated statement of changes in equity**  
**For the half year ended 30 June 2022**

	Share capital US\$m	Share premium account US\$m	Own shares US\$m	Translation reserve US\$m	Capital reduction reserve US\$m	Other reserves US\$m	Retained profit/(loss) US\$m	Total US\$m	Non- controlling interests US\$m	Total equity US\$m
Balance as at 1 January 2021 (audited)	90.1	10.5	(3.2)	(89.2)	59.8	246.3	(23.8)	290.5	28.4	318.9
Profit for the period	-	-	-	-	-	-	49.2	49.2	12.8	62.0
Other comprehensive income and expense for the period	-	-	-	(5.1)	-	-	134.2	129.1	(0.2)	128.9
Dividends	-	-	-	-	-	-	(18.8)	(18.8)	(12.6)	(31.4)
Movement in own shares	-	-	0.6	-	-	-	-	0.6	-	0.6
Share based payments	-	-	-	-	-	-	2.6	2.6	-	2.6
Deferred tax on share schemes	-	-	-	-	-	-	0.3	0.3	-	0.3
Balance as at 30 June 2021 (unaudited)	90.1	10.5	(2.6)	(94.3)	59.8	246.3	143.7	453.5	28.4	481.9
Balance as at 1 January 2021 (audited)	90.1	10.5	(3.2)	(89.2)	59.8	246.3	(23.8)	290.5	28.4	318.9
Profit for the year	-	-	-	-	-	-	88.9	88.9	19.7	108.6
Other comprehensive income and expense for the year	-	-	-	(16.5)	-	-	211.8	195.3	(0.5)	194.8
Dividends	-	-	-	-	-	-	(27.6)	(27.6)	(16.5)	(44.1)
Movement in own shares	-	-	2.7	-	-	-	(0.8)	1.9	-	1.9
Share based payments	-	-	-	-	-	-	3.9	3.9	-	3.9
Deferred tax on share schemes	-	-	-	-	-	-	0.1	0.1	-	0.1
Balance as at 31 December 2021 (audited)	90.1	10.5	(0.5)	(105.7)	59.8	246.3	252.5	553.0	31.1	584.1
(Loss)/profit for the period	-	-	-	-	-	-	(37.7)	(37.7)	14.6	(23.1)
Other comprehensive income and expense for the period	-	-	-	(18.1)	-	-	160.4	142.3	(0.6)	141.7
Application of IAS 29 (note 1)	-	-	-	-	-	-	5.3	5.3	-	5.3
Dividends	-	-	-	-	-	-	(21.8)	(21.8)	(7.5)	(29.3)
Purchase of own shares	-	-	(1.8)	-	-	-	-	(1.8)	-	(1.8)
Movement in own shares	-	-	2.0	-	-	-	(1.7)	0.3	-	0.3
Share based payments	-	-	-	-	-	-	3.7	3.7	-	3.7
Deferred tax on share schemes	-	-	-	-	-	-	0.3	0.3	-	0.3
Balance as at 30 June 2022 (unaudited)	90.1	10.5	(0.3)	(123.8)	59.8	246.3	361.0	643.6	37.6	681.2

**Condensed consolidated cash flow statement**  
**For the half year ended 30 June 2022**

		Half year 2022 unaudited US\$m	Half year 2021* unaudited US\$m	Full year 2021* audited US\$m
	Note			
<b>Cash inflow from operating activities</b>				
Cash generated from operations	11 (a)	58.7	91.2	189.0
Interest paid	11 (b)	(10.8)	(8.1)	(17.6)
Taxation paid	11 (c)	(27.7)	(21.9)	(47.9)
<b>Net cash generated by operating activities</b>		<b>20.2</b>	<b>61.2</b>	<b>123.5</b>
<b>Cash outflow from investing activities</b>				
Investment income	11 (d)	-	-	0.3
Net capital expenditure and financial investment	11 (e)	(15.4)	(12.9)	(30.3)
Acquisitions and disposals	11 (f)	(13.5)	-	-
<b>Net cash absorbed in investing activities</b>		<b>(28.9)</b>	<b>(12.9)</b>	<b>(30.0)</b>
<b>Cash outflow from financing activities</b>				
Purchase of own shares		(1.7)	-	-
Dividends paid to equity shareholders		(21.8)	(14.7)	(27.4)
Dividends paid to non-controlling interests		(7.5)	(12.6)	(16.5)
Payment of lease liabilities	11 (b)	(9.3)	(8.4)	(17.0)
Net increase in other borrowings		98.5	10.0	8.4
<b>Net cash generated by/(absorbed in) financing activities</b>		<b>58.2</b>	<b>(25.7)</b>	<b>(52.5)</b>
<b>Net increase in cash and cash equivalents</b>		<b>49.5</b>	<b>22.6</b>	<b>41.0</b>
Net cash and cash equivalents at beginning of the period		90.8	52.1	52.1
Foreign exchange losses on cash and cash equivalents		(2.6)	(1.0)	(2.3)
<b>Net cash and cash equivalents at end of the period</b>	11 (g)	<b>137.7</b>	<b>73.7</b>	<b>90.8</b>
<b>Reconciliation of net cash flow to movement in net debt</b>				
Net increase in cash and cash equivalents		49.5	22.6	41.0
Net increase in other borrowings		(98.5)	(10.0)	(8.4)
Change in net debt resulting from cash flows (Free cash flow)	14 (e)	(49.0)	12.6	32.6
Net movement in lease liabilities during the period		5.5	(30.8)	(33.0)
Movement in fair value hedges		3.6	1.4	3.0
Other non-cash movements		(0.5)	(0.8)	(1.3)
Foreign exchange gains/(losses)		2.8	(0.1)	(0.8)
(Increase)/decrease in net debt		(37.6)	(17.7)	0.5
Net debt at start of period		(246.1)	(246.6)	(246.6)
Net debt at end of period	11 (g)	(283.7)	(264.3)	(246.1)

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**1. Basis of preparation**

These condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2021, which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the United Kingdom Endorsement Board (UKEB). The condensed consolidated financial statements for the six months ended 30 June 2022 included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting, as adopted by the UKEB, and the requirements of the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority ('FCA') in the United Kingdom as applicable to interim financial reporting.

The condensed consolidated financial statements for the six months ended 30 June 2022 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2021 were also reviewed but not audited. The condensed consolidated financial statements represent a 'condensed set of financial statements' as referred to in the DTR issued by the FCA. Accordingly, they do not include all of the information required for a full annual financial report and are to be read in conjunction with the Group's financial statements for the year ended 31 December 2021, which were prepared in accordance with IFRS adopted for use by the UKEB. The information for the year ended 31 December 2021 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). The financial information for the year ended 31 December 2021 is derived from the statutory accounts for that year, which have been filed with the Registrar of Companies. The audit report on the statutory accounts for the year ended 31 December 2021 was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or 498(3) of the Companies Act 2006.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, and are expected to be applied in the annual audited financial statements for the current year other than the following new and revised standards, amendments and improvements to existing standards that were effective as of 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018–2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to the Conceptual Framework (Amendments to IFRS 3).

The adoption of these standards and amendments has not had a material impact on the financial statements of the Group.

The preparation of condensed consolidated financial information, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial information, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. In preparing the condensed consolidated financial statements, the critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2021, except for the critical accounting judgement set out below.

In management's judgement the Brazil and Argentina business which was sold in May 2022 represents a separate major geographical area and therefore its results for 2022 have been presented as a discontinued operation as described below, with restatement of 2021 comparative amounts.

Sensitivities regarding the discount rate and inflation assumptions used to measure the liabilities of the UK pension scheme are set out in note 15.

**Discontinued operations**

On 10 May 2022 the Group announced the agreement to sell its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The sale was completed on 26 May 2022, the date which control passed to the acquirer. The results of the Brazil and Argentina business are presented as a discontinued operation in the condensed consolidated income statement for the six months ended 30 June 2022. Amounts for the six months ended 30 June 2021 and year ended 31 December 2021 in the condensed consolidated income statement have been represented to reclassify the results of the Brazil and Argentina business from continuing operations to discontinued operations. Note 13 provides further details of the sale.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**1. Basis of preparation (continued)**

**Going concern**

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

In assessing the Group's going concern position, the Directors have considered a number of factors, including the current balance sheet position and available liquidity, the principal and emerging risks which could impact the performance of the Group and compliance with borrowing covenants.

In order to assess the going concern status of the Group management has prepared:

- A base case scenario, aligned to the latest Group forecast for 2022 as well as the Group's updated Medium Term Plan for 2023;
- A severe but plausible downside scenario, assumes that the global economic environment is severely depressed over the assessment period; and
- A reverse stress test flexing sales to determine what circumstance would be required to either reduce headroom to nil on committed borrowing facilities or breach borrowing covenants, whichever occurred first.

All scenarios set out above included Texon International Group, following the completion of the acquisition on 20 July 2022.

The severe but plausible downside scenario includes further management actions that would be deployed if required (for example further reduction in costs).

The reverse stress test also includes further controllable management actions that could be deployed if required. The outcome of the reverse stress test was that the leverage covenant would be breached. However, at the breaking point in the test the Group still maintained a comfortable level of liquidity on committed borrowing facilities. The Directors consider the likelihood of the condition in the reverse stress test occurring to be remote.

**Liquidity headroom**

As at 30 June 2022 the Group's net debt (excluding IFRS16 leases) was \$195.1 million. The Group's committed debt facilities total \$585 million across both its Banking and US Private Placement group, with a range of maturities from 2024 through to 2027, as of 30 June 2022 the Group has around \$240 million of headroom against these committed banking facilities.

On 20 July 2022, the Group fully drew down on a new \$240 million term loan acquisition facility, in order to fund the purchase of Texon International Group. The facility matures in July 2024, with the Group having the option to extend a further nine months into early 2025.

In both the base case and the severe but plausible downside scenario liquidity is comfortable throughout the assessment period.

**Covenant testing**

The Group's committed borrowing facilities are subject to ongoing covenant testing. Covenants are measured twice a year, at full year and half year and are measured under frozen accounting standards and therefore exclude the effects of IFRS 16. The financial covenants under the borrowing agreements are for leverage (net debt / EBITDA) less than 3.0 and interest cover (EBITDA / interest charge) to be in excess of 4.0.

All banking covenants tests were met comfortably at 30 June 2022, with leverage of 0.8x and interest cover of 24.8x. The base case forecast indicates that banking covenants will be comfortably met throughout the assessment period. Under the severe but plausible downside scenario covenant compliance is still projected to be achieved throughout the assessment period, although with reduced but adequate headroom.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**1. Basis of preparation (continued)**

**Going concern (continued)**

In conclusion, after reviewing the base case, the severe but plausible downside scenario and considering the remote likelihood of the scenario in the reverse stress test occurring, the Directors have formed the judgement that, at the time of approving the condensed consolidated financial statements, there are no material uncertainties that cast doubt on the Group's going concern status and that it is appropriate to prepare the condensed consolidated financial statements on the going concern basis.

**Principal exchange rates**

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

		<b>June 2022</b>	June 2021	December 2021
Average	Sterling	<b>0.77</b>	0.72	0.73
	Euro	<b>0.92</b>	0.83	0.85
	Chinese Renminbi	<b>6.48</b>	6.47	6.45
	Indian Rupee	<b>76.22</b>	73.33	73.92
	Turkish Lira *	<b>14.86</b>	7.90	8.89
Period end	Sterling	<b>0.82</b>	0.72	0.74
	Euro	<b>0.95</b>	0.84	0.88
	Chinese Renminbi	<b>6.70</b>	6.46	6.35
	Indian Rupee	<b>78.95</b>	74.36	74.47
	Turkish Lira	<b>16.69</b>	8.70	13.32

\* In May 2022 Turkey was considered as hyperinflationary and as a result estimates have been made in applying IAS 29 "Financial Reporting in Hyperinflationary Economies" for the first time for the six months ended 30 June 2022. In accordance with IAS 29, the financial statements of the Company's subsidiary in Turkey are expressed in terms of the measuring unit current as of 30 June 2022. Monetary assets and liabilities are not restated. All non-monetary items recorded at historical rates are restated in terms of the measuring unit current as of 30 June 2022. For translation into the Group's US Dollar presentation currency, all amounts were translated at the closing rate at 30 June 2022. Comparative amounts in the Group's financial statements are not restated. The translation adjustment resulting from the initial application of IAS 29 of \$5.3 million was recognised in equity.

**2. Segmental analysis**

Operating segments are components of the Group's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Group Executive Team). The Group's customers are grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

**Segment revenue and results**

Six months ended 30 June 2022	<b>Apparel &amp; Footwear unaudited US\$m</b>	<b>Performance Materials unaudited US\$m</b>	<b>Total unaudited US\$m</b>
<b>Continuing operations</b>			
<b>Revenue</b>	<b>587.1</b>	<b>214.4</b>	<b>801.5</b>
<b>Segment profit</b>	<b>107.0</b>	<b>17.7</b>	<b>124.7</b>
Exceptional and acquisition related items (note 3)			<b>(13.3)</b>
<b>Operating profit</b>			<b>111.4</b>
Share of profits of joint ventures			<b>0.7</b>
Finance income			<b>0.2</b>
Finance costs			<b>(15.5)</b>
<b>Profit before taxation from continuing operations</b>			<b>96.8</b>



**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**2. Segmental analysis (continued)**

Six months ended 30 June 2021*	Apparel & Footwear unaudited US\$m	Performance Materials unaudited US\$m	Total unaudited US\$m
<b>Continuing operations</b>			
<b>Revenue</b>	507.3	196.0	703.3
<b>Segment profit</b>	85.2	11.9	97.1
Exceptional and acquisition related items (note 3)			(3.7)
<b>Operating profit</b>			93.4
Share of profit of joint ventures			0.7
Finance income			0.2
Finance costs			(10.1)
<b>Profit before taxation from continuing operations</b>			84.2
<b>Year ended 31 December 2021*</b>	<b>Apparel &amp; Footwear audited US\$m</b>	<b>Performance Materials audited US\$m</b>	<b>Total audited US\$m</b>
<b>Continuing operations</b>			
<b>Revenue</b>	1,048.1	398.6	1,446.7
<b>Segment profit</b>	170.7	27.0	197.7
Exceptional and acquisition related items (note 3)			(19.5)
<b>Operating profit</b>			178.2
Share of profits of joint ventures			1.2
Finance income			0.4
Finance costs			(21.8)
<b>Profit before taxation from continuing operations</b>			158.0

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Exceptional and acquisition related items are not allocated to segments. In addition no measures of total assets and total liabilities are reported for each reportable segment as such amounts are not regularly provided to the chief operating decision maker.

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**2. Segmental analysis (continued)**

**Disaggregation of revenue**

The following table shows revenue disaggregated by primary geographical markets with a reconciliation of the disaggregated revenue with the Group's reportable segments.

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
<b>Continuing operations</b>			
<b>Primary geographic markets</b>			
Asia	<b>475.4</b>	407.4	849.7
Americas	<b>171.9</b>	152.6	313.8
EMEA	<b>154.2</b>	143.3	283.2
<b>Total</b>	<b>801.5</b>	703.3	1,446.7
<b>Continuing operations</b>			
Apparel & Footwear	<b>587.1</b>	507.3	1,048.1
Performance Materials	<b>214.4</b>	196.0	398.6
<b>Total</b>	<b>801.5</b>	703.3	1,446.7
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	<b>795.9</b>	698.0	1,435.6
Software solutions services transferred over time	<b>5.6</b>	5.3	11.1
<b>Total</b>	<b>801.5</b>	703.3	1,446.7

The software solutions business is included in the Apparel & Footwear segment.

The Group had no revenue from a single customer which accounts for more than 10% of the Group's revenue.

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**3. Exceptional and acquisition related items**

The Group's consolidated income statement format is presented both before and after exceptional and acquisition related items.

Adjusted results exclude exceptional and acquisition related items on a consistent basis with the previous reporting period to provide additional useful information to users of the accounts of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 14.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, gains or losses arising from significant one off changes to the assumptions underlying the defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**3. Exceptional and acquisition related items (continued)**

Total exceptional and acquisition related items charged to operating profit for the six months ended 30 June 2022 was \$13.3 million (six months ended 30 June 2021: \$3.7 million; year ended 31 December 2021: \$19.5 million). This comprises exceptional items for the six months ended 30 June 2022 of \$9.8 million (six months ended 30 June 2021: \$1.9 million; year ended 31 December 2021: \$3.7 million) and acquisition related items for the six months ended 30 June 2022 of \$3.5 million (six months ended 30 June 2021: \$1.8 million; year ended 31 December 2021: \$15.8 million). Tax in respect of exceptional and acquisition related items is set out in note 6.

**Exceptional items**

Exceptional items charged to operating profit are set out below:

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
<b>Exceptional items:</b>			
<i>Administrative expenses:</i>			
Strategic project costs	<b>9.8</b>	-	3.7
Other exceptional costs	-	1.9	-
<b>Total exceptional items charged to operating profit from continuing operations</b>	<b>9.8</b>	1.9	3.7

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Strategic project costs** – The Group commenced at the end of 2021 a strategic project to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US. Exceptional restructuring costs of \$9.8 million were incurred during the six months ended 30 June 2022 which included severance costs of \$7.3 million, non-cash impairment charges of tangible fixed assets and right-of-use assets of \$2.1 million largely in the UK and US and \$0.4 million of legal and other costs.

Exceptional strategic project costs of \$3.7 million were incurred during the year ended 31 December 2021 which included advisers' costs of \$0.9 million, impairment charges relating to plant and equipment in North America of \$2.0 million and closure and other related costs of \$1.7 million. This was offset by an exceptional credit of \$0.9 million relating to the closure of a small business in Australia in a prior year.

**Other exceptional costs** – During the six months ended 30 June 2021 other non-recurring exceptional costs were \$1.9 million.

**Acquisition related items**

Acquisition related items are set out below:

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021 unaudited US\$m</b>	<b>Full year 2021 audited US\$m</b>
<i>Administrative expenses:</i>			
Acquisition earnouts and contingent consideration	-	0.1	0.1
Acquisition transaction costs	<b>1.9</b>	-	12.4
Amortisation of acquired intangibles	<b>1.6</b>	1.7	3.3
<b>Total acquisition related items charged to operating profit</b>	<b>3.5</b>	1.8	15.8

The Group has made acquisitions in prior years with earn outs to allow part of the consideration to be based on the future performance of the businesses acquired and to lock in key management. Where consideration paid or contingent consideration payable in the future is employment linked, it is treated as an expense and part of statutory results. However, all consideration of this type is excluded from adjusted operating profit and adjusted earnings per share as in management's view, these items are part of the capital transaction.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**3. Exceptional and acquisition related items (continued)**

**Acquisition related items (continued)**

Acquisition transaction costs and amortisation of intangible assets acquired through business combinations are not included within adjusted earnings. These costs are acquisition related and management consider them to be capital in nature and they do not reflect the underlying trading performance of the Group.

Excluding amortisation of intangible assets acquired through business combinations and recognised in accordance with IFRS 3 "Business Combinations" from adjusted results also ensures that the performance of the Group's acquired businesses is presented consistently with its organically grown businesses. It should be noted that the use of acquired intangible assets contributed to the Group's results for the periods presented and will contribute to the Group's results in future periods as well. Amortisation of acquired intangible assets will recur in future periods. Amortisation of software is included within adjusted results as management consider these costs to be part of the underlying trading performance of the business.

**4. Finance income**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Income from investments	-	-	0.1
Other interest receivable and similar income	<b>0.2</b>	0.2	0.3
	<b>0.2</b>	0.2	0.4

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**5. Finance costs**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Interest on bank and other borrowings	<b>5.7</b>	5.1	10.4
Interest expense on lease liabilities	<b>2.5</b>	2.6	5.2
Net interest on pension scheme assets and liabilities	<b>0.3</b>	2.1	4.1
Other finance costs including unrealised gains and losses on foreign exchange contracts	<b>7.0</b>	0.3	2.1
	<b>15.5</b>	10.1	21.8

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**6. Taxation**

The taxation charges for the six months ended 30 June 2022 and 30 June 2021 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments. The tax charge for the six months ended 30 June 2022 was \$32.6 million (six months ended 30 June 2021: \$27.3 million; year ended 31 December 2021: \$53.1 million)\*. For the six months ended 30 June 2022 the tax credit in respect of exceptional and acquisition related items was \$0.5 million (six months ended 30 June 2021: \$0.1 million; year ended 31 December 2021: \$0.2 million)\*.

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**7. Earnings/(loss) per share**

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of ordinary shares in issue during the period, excluding shares held by the Employee Benefit Trust but including shares under share incentive schemes which are not contingently issuable.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**7. Earnings/(loss) per share (continued)**

The calculation of basic earnings/(loss) per ordinary share from continuing and discontinued operations is based on the profit/(loss) attributable to equity shareholders. The weighted average number of ordinary shares used for the calculation of basic earnings per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares to the extent that this does not dilute a loss. The Group has two classes of dilutive potential ordinary shares: those shares relating to awards under the Group Deferred Bonus Plan which have been awarded but not yet reached the end of the three year retention period and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

	<b>Half year 2022 unaudited US\$m</b>	Half year 2021* unaudited US\$m	Full year 2021* audited US\$m
Profit from continuing operations attributable to equity shareholders	<b>49.6</b>	44.1	85.2
(Loss)/profit from continuing and discontinued operations attributable to equity shareholders	<b>(37.7)</b>	49.2	88.9
	<b>Half year 2022 unaudited Number of shares m</b>	Half year 2021 unaudited Number of shares m	Full year 2021 audited Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	<b>1,459.6</b>	1,456.9	1,457.1
Adjustment for share options and LTIP awards	<b>4.1</b>	-	5.9
Weighted average number of ordinary shares in issue for diluted earnings per share	<b>1,463.7</b>	1,456.9	1,463.0
	<b>Half year 2022 unaudited cents</b>	Half year 2021* unaudited cents	Full year 2021* audited cents
<b>Continuing operations:</b>			
Basic earnings per ordinary share	<b>3.40</b>	3.03	5.84
Diluted earnings per ordinary share	<b>3.39</b>	3.03	5.82
<b>Continuing and discontinued operations:</b>			
Basic (loss)/earnings per ordinary share	<b>(2.58)</b>	3.38	6.10
Diluted (loss)/earnings per ordinary share	<b>(2.58)</b>	3.38	6.07

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**8. Issued share capital**

At 30 June 2022 the share capital of the Company comprised 1,452,570,385 Ordinary Shares of 5p each (31 December 2021: 1,452,570,385; 30 June 2021: 1,452,570,385).

During the six months ended 30 June 2022 the Company did not issue any Ordinary Shares of 5p each. During the six months ended 30 June 2021 and year ended 31 December 2021 the Company issued 493,113 Ordinary Shares of 5p each following the exercise of awards under the Group's share based incentive plans.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**8. Issued share capital (continued)**

The own shares reserve of \$0.3 million at 30 June 2022 (31 December 2021: \$0.5 million; 30 June 2021: \$2.6 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 30 June 2022 was 1,023,230 (31 December 2021: 2,020,306; 30 June 2021: 5,944,427).

**9. Dividends**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021 unaudited US\$m</b>	<b>Full year 2021 audited US\$m</b>
2021 final dividend paid – 1.50 cents per share	<b>21.8</b>	-	-
2021 interim dividend paid – 0.61 cents per share	-	-	8.8
2020 final dividend paid – 1.30 cents per share	-	18.8	18.8
	<b>21.8</b>	<b>18.8</b>	<b>27.6</b>

The directors have declared an ordinary interim dividend per share of 0.70 cents (30 June 2021: 0.61 cents) to be paid on 16 November 2022 to shareholders on the register on 21 October 2022. In line with the requirements of IAS 10 Events after the Reporting Period, these condensed consolidated financial statements do not reflect this interim dividend payable.

**10. US environmental matters**

As noted in previous reports, in December 2009, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Over 100 PRPs have been identified by EPA. In 2011, CC joined a cooperating parties group ('CPG') of companies formed to fund and conduct a remedial investigation and feasibility study of the area.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation, including those that are the most responsible for its contamination.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR at an estimated cost of \$1.38 billion on a net present value basis. In September 2021, EPA issued a Record of Decision selecting an interim remedy for the upper 9 miles of the LPR (involving targeted removal of contaminants and ongoing monitoring to assess whether additional contaminant removal would be necessary), at an estimated cost of \$441 million on a net present value basis.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower 8 miles of the LPR.

Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC that covered the LPR, has been granted Chapter 11 bankruptcy protection, but OCC remains responsible for its remedial obligations even in the absence of Maxus' indemnity. The approved bankruptcy plan created a liquidating trust to pursue potential claims against Maxus' parent entity, YPF SA, and potentially others, which could result in additional funding for the LPR remedy.

While the ultimate costs of the remedial design and the final remedy for the full 17-mile LPR are expected to be shared among more than a hundred parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties in a settlement or court ruling has not yet been finally determined.

**10. US environmental matters (continued)**

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. EPA invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the allocation, CC presented factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis or even smaller de micromis party. The confidential allocation process concluded in December 2020. CC continues to believe that it should be a de minimis or even smaller de micromis party in an eventual settlement or court ruling allocating remedial costs.

On 30 June 2018, OCC filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's continued belief that it is a de minimis or even smaller de micromis party.

In 2015, a provision totalling \$15.8 million was recorded for remediation costs for the entire 17 miles of the LPR and the estimated associated legal and professional costs in defence of CC's position. The provision for remediation costs was based on CC's estimated share of de minimis costs for (a) EPA's selected remedy for the lower 8 miles of the LPR and (b) the remedy for the upper 9 miles proposed by the CPG, which was later substantively adopted by the EPA. This charge to the income statement was net of insurance reimbursements and was stated on a net present value basis. During the year ended 31 December 2018, an additional provision of \$8.0 million was recorded as an exceptional item to cover legal and professional fees. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

At 30 June 2022, the remaining provision, taking into account insurance reimbursement, was \$10.8 million (31 December 2021: \$11.2 million). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA process and OCC's lawsuit, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis or even smaller de micromis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, it is nonetheless still possible that additional provisions could be recorded and that such provisions could increase materially based on further decisions by EPA and the court, negotiations among the parties, and other future events.

Following the sale of the North America Crafts business, including CC, announced on 22 January 2019, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters, including the rights to the related insurance reimbursements.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**11. Notes to the condensed consolidated cash flow statement**

**a) Reconciliation of operating profit to net cash inflow from operations**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Operating profit	111.4	93.4	178.2
Depreciation of owned property, plant and equipment	13.0	13.9	27.3
Depreciation of right-of-use assets	9.9	9.7	19.4
Amortisation of intangible assets	2.4	3.3	6.0
Increase in inventories	(25.9)	(36.5)	(66.8)
Increase in debtors	(37.2)	(50.8)	(38.2)
Increase in creditors	7.2	72.9	91.5
Provision and pension movements	(23.8)	(18.6)	(34.5)
Foreign exchange and other non-cash movements	9.7	4.3	13.0
Discontinued operations	(8.0)	(0.4)	(6.9)
Cash generated from operations	<b>58.7</b>	<b>91.2</b>	<b>189.0</b>

**b) Interest paid**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Interest paid	(10.1)	(8.0)	(16.1)
Discontinued operations	(0.7)	(0.1)	(1.5)
	<b>(10.8)</b>	<b>(8.1)</b>	<b>(17.6)</b>

Interest paid for the six months ended 30 June 2022 includes interest relating to lease liabilities. Payment of lease liabilities for the six months ended 30 June 2022 excludes interest relating to lease liabilities. Prior period amounts have been conformed to the current period presentation.

**c) Taxation paid**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Overseas tax paid	(27.7)	(21.9)	(47.8)
Discontinued operations	-	-	(0.1)
	<b>(27.7)</b>	<b>(21.9)</b>	<b>(47.9)</b>

**d) Investment income**

	<b>Half year 2022 Unaudited US\$m</b>	<b>Half year 2021 unaudited US\$m</b>	<b>Full year 2021 audited US\$m</b>
Dividends received from joint ventures	-	-	0.3

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).



**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**11. Notes to the condensed consolidated cash flow statement (continued)**

**e) Capital expenditure and financial investment**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Acquisition of property, plant and equipment and intangible assets	<b>(15.3)</b>	(13.0)	(30.5)
Disposal of other equity investments	-	0.1	0.1
Disposal of property, plant and equipment	<b>0.4</b>	0.1	0.8
Discontinued operations	<b>(0.5)</b>	(0.1)	(0.7)
	<b>(15.4)</b>	(12.9)	(30.3)

**f) Acquisitions and disposals**

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021 unaudited US\$m</b>	<b>Full year 2021 audited US\$m</b>
Disposal of business	<b>(13.5)</b>	-	-

**g) Net debt**

A summary of net debt is set out below:

	<b>30 June 2022 unaudited US\$m</b>	<b>30 June 2021 unaudited US\$m</b>	<b>31 December 2021 audited US\$m</b>
Cash and cash equivalents	<b>140.4</b>	85.7	107.2
Bank overdrafts	<b>(2.7)</b>	(12.0)	(16.4)
Net cash and cash equivalents	<b>137.7</b>	73.7	90.8
Other borrowings	<b>(332.8)</b>	(241.4)	(237.9)
<b>Net debt excluding lease liabilities</b>	<b>(195.1)</b>	(167.7)	(147.1)
Lease liabilities	<b>(88.6)</b>	(96.6)	(99.0)
<b>Total net debt</b>	<b>(283.7)</b>	(264.3)	(246.1)

For financial covenant purposes, the Group's leverage is calculated on the basis of net debt without IFRS 16 lease liabilities and at the Coats Group Finance Company Limited level. Net debt excluding IFRS 16 lease liabilities at the Coats Group Finance Company Limited level at 30 June 2022 for covenant purposes was \$199.6 million (30 June 2021: \$170.2 million; 31 December 2021: \$148.0 million).

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**11. Notes to the condensed consolidated cash flow statement (continued)**

**g) Net debt (continued)**

The components of net debt and movements during the periods are set out below:

	Series A and Series B Senior Notes US\$m	Bank loans US\$m	Lease liabilities US\$m	Bank overdrafts US\$m	Total financing activity liabilities US\$m	Cash at bank and in hand US\$m	Net debt US\$m
At 1 January 2021 (audited)	(230.4)	(2.3)	(66.0)	(19.8)	(318.5)	71.9	(246.6)
Cash flows	-	(10.0)	11.0	7.8	8.8	14.8	23.6
Non-cash movements	1.4	(0.8)	(41.8)	-	(41.2)	-	(41.2)
Foreign exchange	-	0.7	0.2	-	0.9	(1.0)	(0.1)
At 30 June 2021 (unaudited)	(229.0)	(12.4)	(96.6)	(12.0)	(350.0)	85.7	(264.3)
At 1 January 2021 (audited)	(230.4)	(2.3)	(66.0)	(19.8)	(318.5)	71.9	(246.6)
Cash flows	-	(8.4)	22.1	3.1	16.8	37.9	54.7
Non-cash movements	2.9	(1.4)	(55.3)	-	(53.8)	-	(53.8)
Foreign exchange	-	1.7	0.2	0.3	2.2	(2.6)	(0.4)
At 31 December 2021 (audited)	<b>(227.5)</b>	<b>(10.4)</b>	<b>(99.0)</b>	<b>(16.4)</b>	<b>(353.3)</b>	<b>107.2</b>	<b>(246.1)</b>
Cash flows	-	<b>(98.5)</b>	<b>11.8</b>	<b>13.7</b>	<b>(73.0)</b>	<b>35.8</b>	<b>(37.2)</b>
Non-cash movements	<b>3.6</b>	<b>(0.5)</b>	<b>(6.3)</b>	-	<b>(3.2)</b>	-	<b>(3.2)</b>
Foreign exchange	-	<b>0.5</b>	<b>4.9</b>	-	<b>5.4</b>	<b>(2.6)</b>	<b>2.8</b>
<b>At 30 June 2022 (unaudited)</b>	<b>(223.9)</b>	<b>(108.9)</b>	<b>(88.6)</b>	<b>(2.7)</b>	<b>(424.1)</b>	<b>140.4</b>	<b>(283.7)</b>

The non-cash movement during the six months ended 30 June 2022 of \$3.6 million (six months ended 30 June 2021: \$1.4 million; year ended 31 December 2021: \$2.9 million) within Series A and Series B Senior Notes represents the movement in the fair value adjustment to the nominal amount outstanding of \$225.0 million and relates to interest rate swaps which are accounted for as fair value hedges.

Right-of-use assets at 30 June 2022 were \$80.7 million (31 December 2021: \$91.6 million; 30 June 2021: \$90.1 million). The decrease in the six months ended 30 June 2022 was primarily due to depreciation of right-of-use assets during the six months ended 30 June 2022 of \$9.9 million.

**12. Acquisitions**

On 20 July 2022 the Group acquired 100% of the voting equity of Texon International Group Limited ('Texon'), a leading footwear solutions provider, for an enterprise value of \$237 million. Texon supplies high quality structural components to the global footwear market.

The Group fully drew down on a new \$240 million term loan acquisition facility, in order to fund the purchase. The facility matures in July 2024, with the Group having the option to extend a further nine months into early 2025.

Initial transaction costs of \$1.5 million relating to the acquisition have been expensed and are included within administrative expenses in the condensed consolidated income statement for the six months ended 30 June 2022.

Given the timing of completion it has not been practical to complete the assessment of the fair value of the assets and liabilities acquired of the Texon business, including intangible assets. As the acquisition was completed after 30 June 2022, the results of Texon have not been consolidated in these condensed consolidated financial statements.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**13. Discontinued operations**

**Sale of Brazil and Argentina**

On 10 May 2022 the Group announced the agreement to sell its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The sale was completed on 26 May 2022, the date which control passed to the acquirer. Under the terms of the disposal, the Group paid \$15.0 million to Reelpar S.A. to support restructuring of the business. During the five years following the completion date earn-out payments are payable to the Group in the event that certain operational cash flow targets are met by the Brazil and Argentina business. No earn-out payments have been recognised by the Group as at 30 June 2022.

**a) Discontinued operations**

The results of the discontinued operations are presented below:

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021 * unaudited US\$m</b>	<b>Full year 2021 * audited US\$m</b>
<b>Revenue</b>	<b>26.3</b>	34.8	66.8
Cost of sales	(22.6)	(24.2)	(49.8)
<b>Gross profit</b>	<b>3.7</b>	10.6	17.0
Distribution costs	(3.8)	(4.8)	(10.2)
Administrative expenses	(3.3)	(2.6)	(5.6)
<b>Operating (loss)/profit</b>	<b>(3.4)</b>	3.2	1.2
Finance income	-	4.7	4.2
Finance costs	(0.3)	(0.1)	(0.4)
<b>(Loss)/profit before taxation</b>	<b>(3.7)</b>	7.8	5.0
Taxation	-	(2.7)	(1.3)
<b>(Loss)/profit from discontinued operations for the period</b>	<b>(3.7)</b>	5.1	3.7
Loss on disposal (note 13(b))	(68.6)	-	-
Exchange loss transferred to income statement on disposal	(15.0)	-	-
<b>Total (loss)/profit from discontinued operations</b>	<b>(87.3)</b>	5.1	3.7

Revenue reported above includes inter-company sales for the six months ended 30 June 2022 of \$1.6 million (six months ended 30 June 2021: \$1.6 million; year ended 31 December 2021: \$3.6 million). External revenue of the Brazil and Argentina business for the six months ended 30 June 2022 was \$24.7 million (six months ended 30 June 2021: \$33.2 million; year ended 31 December 2021: \$63.2 million).

**Exceptional items – discontinued operations**

Exceptional items credited/(charged) to (loss)/profit from discontinued operations are set out below:

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
<i>Brazil indirect taxes:</i>			
- Cost of sales	-	5.1	5.8
- Finance income	-	4.7	4.2
Loss on disposal (note 13(b))	(68.6)	-	-
Exchange loss transferred to income statement on disposal	(15.0)	-	-
<b>Total exceptional items – discontinued operations</b>	<b>(83.6)</b>	9.8	10.0

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**13. Discontinued operations (continued)**

**Exceptional items – discontinued operations (continued)**

**Brazil indirect taxes** – In 2021 the Brazilian Supreme Federal Court concluded its judgement that Brazilian ICMS (indirect tax on goods and services) should not be included in the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes.

As a result, estimated refunds were recognised as exceptional items in the results for the six months ended 30 June 2021 and year ended 31 December 2021 of \$5.1 million and \$5.8 million respectively which was included in cost of sales and in addition exceptional interest income was recognised for the six months ended 30 June 2021 and year ended 31 December 2021 of \$4.7 million and \$4.2 million respectively.

These refunds date back to 2003 and the estimated tax credit amounts were expected to be utilised over a period of approximately six years, once the business has received a favourable Court ruling.

**(Loss)/earnings per ordinary share from discontinued operations**

The (loss)/earnings per ordinary share from discontinued operations is as follows:

	<b>Half year 2022 unaudited cents</b>	<b>Half year 2021* unaudited cents</b>	<b>Full year 2021* audited cents</b>
<b>(Loss)/earnings per ordinary share from discontinued operations:</b>			
Basic (loss)/earnings per ordinary share	<b>(5.98)</b>	0.35	0.26
Diluted (loss)/earnings per ordinary share	<b>(5.97)</b>	0.35	0.25

**Cash flows from discontinued operations**

The table below sets out the cash flows from discontinued operations:

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Net cash outflow from operating activities	<b>(8.7)</b>	(0.5)	(8.5)
Net cash outflow from investing activities	<b>(0.5)</b>	(0.1)	(0.7)
<b>Net cash flows from discontinued operations</b>	<b>(9.2)</b>	(0.6)	(9.2)

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**13. Discontinued operations (continued)**

**b) Loss on disposal**

The major classes of assets and liabilities disposed relating to the Brazil and Argentina business was as follows:

	US\$m
Property, plant and equipment	10.8
Inventories	26.9
Trade and other receivables	35.7
Cash and cash equivalents	0.7
<b>Total assets</b>	<b>74.1</b>
Trade and other payables	(18.1)
Current income tax liabilities	(1.2)
Bank overdrafts	(2.5)
Retirement benefit obligations	(2.0)
Provisions	(0.9)
<b>Total liabilities</b>	<b>(24.7)</b>
<b>Net assets disposed</b>	<b>49.4</b>
Consideration paid	15.0
Disposal costs	4.2
<b>Exceptional loss on disposal – discontinued operations</b>	<b>68.6</b>

The consideration paid on the date of disposal was \$15.0 million and net of cash and cash equivalents and bank overdrafts disposed was \$13.2 million. Disposal costs of \$0.3 million were paid in the six months ended 30 June 2022 and as a result the cash outflow in the six months ended 30 June 2022 on the sale of the Brazil and Argentina business was \$13.5 million.

**14. Alternative performance measures**

This half year financial report contains both statutory measures and alternative performance measures which are presented on a consistent basis with the previous reporting period and, in management's view, provide additional useful information to users of the accounts of how the Group's business is managed and measured on a day-to-day basis.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business. A number of these measures form the basis of performance measures for remuneration incentive schemes.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting Standards ('IFRS') as adopted by the United Kingdom Endorsement Board and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies.

More information on the Group's alternative performance measures and key performance indicators, including explanations as to why they are used, are set out in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2021.

A reconciliation of alternative performance measures to the most directly comparable measures reported in accordance with IFRS is provided below.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**14. Alternative performance measures (continued)**

**a) Organic growth on a constant exchange rate (CER) basis**

Organic growth measures the change in revenue and operating profit before exceptional and acquisition related items after adjusting for acquisitions. The effect of acquisitions is equalised by:

1. removing from the year of acquisition, their revenue and operating profit; and
2. in the following year, removing the revenue and operating profit for the number of months equivalent to the pre-acquisition period in the prior year.

There were no acquisitions in the six months ended 30 June 2022 or the six months ended 30 June 2021.

The effects of currency changes are removed through restating prior year revenue and operating profit at current period exchange rates. The principal exchange rates used are set out in note 1.

Organic revenue growth on a CER basis measures the ability of the Group to grow sales by operating in selected geographies and segments and offering differentiated cost competitive products and services.

Adjusted organic operating profit growth on a CER basis measures the underlying profitability progression of the Group.

Adjusted operating profit is calculated by adding back exceptional and acquisition related items (see note 3 for further details).

<b>Revenue</b>	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>% Growth</b>
Revenue from continuing operations	<b>801.5</b>	703.3	14%
Constant currency adjustment	-	(32.5)	
<b>Organic revenue on a CER basis</b>	<b>801.5</b>	670.8	19%
<b>Operating profit</b>	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>% Growth</b>
Operating profit from continuing operations <sup>1</sup>	<b>111.4</b>	93.4	19%
Exceptional and acquisition related items (note 3)	<b>13.3</b>	3.7	
Adjusted operating profit from continuing operations	<b>124.7</b>	97.1	28%
Constant currency adjustment	-	(5.0)	
<b>Organic adjusted operating profit on a CER basis</b>	<b>124.7</b>	92.1	35%

<sup>1</sup> Refer to the condensed consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**14. Alternative performance measures (continued)**

**b) Adjusted EBITDA**

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation of owned fixed assets and right-of-use assets, amortisation and impairments and excluding exceptional and acquisition related items.

Operating profit before exceptional and acquisition related items and before depreciation of owned fixed assets and right-of-use assets and amortisation (Adjusted EBITDA) is set out below:

	<b>Half year 2022 unaudited US\$m</b>	Half year 2021* unaudited US\$m	Full year 2021* audited US\$m
Profit before taxation from continuing operations	<b>96.8</b>	84.2	158.0
Share of profit of joint ventures	<b>(0.7)</b>	(0.7)	(1.2)
Finance income (note 4)	<b>(0.2)</b>	(0.2)	(0.4)
Finance costs (note 5)	<b>15.5</b>	10.1	21.8
Operating profit from continuing operations	<b>111.4</b>	93.4	178.2
Exceptional and acquisition related items (note 3)	<b>13.3</b>	3.7	19.5
Adjusted operating profit from continuing operations	<b>124.7</b>	97.1	197.7
Depreciation of owned property, plant and equipment	<b>13.0</b>	13.9	27.3
Amortisation of intangible assets	<b>0.8</b>	1.6	2.7
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	<b>138.5</b>	112.6	227.7
Depreciation of right-of-use assets	<b>9.9</b>	9.7	19.4
<b>Adjusted EBITDA</b>	<b>148.4</b>	122.3	247.1

Adjusted EBITDA on a last twelve months basis to 30 June 2022 was \$273.2 million (30 June 2021: \$226.5 million).

Adjusted EBITDA on a last twelve months basis to 30 June 2022 of \$273.2 million is the adjusted EBITDA for the six months ended 30 June 2022 of \$148.4 million plus the adjusted EBITDA for the year ended 31 December 2021 of \$247.1 million less the adjusted EBITDA for the six months ended 30 June 2021 of \$122.3 million.

Net debt including lease liabilities under IFRS 16 was \$283.7 million at 30 June 2022 (31 December 2021: \$246.1 million; 30 June 2021: \$264.3 million).

This gives a leverage ratio of net debt including lease liabilities to Adjusted EBITDA at 30 June 2022 of 1.0 (31 December 2021: 1.0; 30 June 2021: 1.2).

On a pre-IFRS 16 basis adjusted EBITDA on a last twelve months basis to 30 June 2022 was \$253.6 million (30 June 2021: \$206.6 million).

Net debt excluding lease liabilities under IFRS 16 was \$195.1 million at 30 June 2022 (31 December 2021: \$147.1 million; 30 June 2021: \$167.7 million).

This gives a leverage ratio on a pre-IFRS 16 basis at 30 June 2022 of 0.8 (31 December 2021: 0.6; 30 June 2021: 0.8).

For the definition and calculation of net debt including and excluding lease liabilities see note 11(g).

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**14. Alternative performance measures (continued)**

**c) Underlying effective tax rate**

The underlying effective tax rate removes the tax impact of exceptional and acquisition related items and net interest on pension scheme assets and liabilities to arrive at a tax rate based on the underlying profit before taxation.

A significant proportion of the Group's net interest on pension scheme assets and liabilities relates to UK pension plans for which there is no related current or deferred tax credit or charge recorded in the income statement. The Group's net interest on pension scheme assets and liabilities is adjusted in arriving at the underlying effective tax shown below and, in management's view, were this not adjusted would distort the alternative performance measure. This is consistent with how the Group monitors and manages the underlying effective tax rate.

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Profit before taxation from continuing operations	<b>96.8</b>	84.2	158.0
Exceptional and acquisition related items (note 3)	<b>13.3</b>	3.7	19.5
Net interest on pension scheme assets and liabilities (note 5)	<b>0.3</b>	2.1	4.1
<b>Underlying profit before taxation from continuing operations</b>	<b>110.4</b>	90.0	181.6
Taxation charge from continuing operations	<b>32.6</b>	27.3	53.1
Tax credit in respect of exceptional and acquisition related items	<b>0.5</b>	0.1	0.2
Tax credit in respect of net interest on pension scheme assets and liabilities	<b>0.3</b>	0.3	0.5
<b>Underlying taxation charge</b>	<b>33.4</b>	27.7	53.8
<b>Underlying effective tax rate</b>	<b>30%</b>	31%	30%

**d) Adjusted earnings per share**

The calculation of adjusted earnings per share is based on the profit from continuing operations attributable to equity shareholders before exceptional and acquisition related items as set out below. Adjusted earnings per share growth measures the underlying progression of the benefits generated for shareholders.

	<b>Half year 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Profit from continuing operations	<b>64.2</b>	56.9	104.9
Non-controlling interests	<b>(14.6)</b>	(12.8)	(19.7)
Profit from continuing operations attributable to equity shareholders	<b>49.6</b>	44.1	85.2
Exceptional and acquisition related items net of non-controlling interests (note 3)	<b>13.2</b>	3.7	19.5
Tax credit in respect of exceptional and acquisition related items	<b>(0.5)</b>	(0.1)	(0.2)
<b>Adjusted profit from continuing operations</b>	<b>62.3</b>	47.7	104.5
Weighted average number of Ordinary Shares	<b>1,459,603,959</b>	1,456,883,189	1,457,076,765
<b>Adjusted earnings per share</b>	<b>4.27</b>	3.28	7.17

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share is the same as that used for basic earnings per Ordinary Share from continuing operations (see note 7).

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).



**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**14. Alternative performance measures (continued)**

**e) Adjusted free cash flow**

Net cash generated by operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below.

Consistent with previous periods, adjusted free cash flow is defined as cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, purchase of own shares by the Employee Benefit Trust and payments to the UK pension scheme.

Adjusted free cash flow measures the Group's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.

	<b>Half year 2022 unaudited US\$m</b>	Half year 2021* unaudited US\$m	Full year 2021* audited US\$m
Change in net debt resulting from cash flows (free cash flow)	<b>(49.0)</b>	12.6	32.6
Disposal of business (note 13(b))	<b>13.5</b>	-	-
Net cash outflow from discontinued operations	<b>9.2</b>	0.6	9.2
Payments to UK pension scheme	<b>22.8</b>	19.3	42.4
Net cash flows in respect of exceptional and acquisition related items	<b>10.1</b>	2.1	12.2
Purchase of own shares by Employee Benefit Trust	<b>1.8</b>	-	-
Dividends paid to equity shareholders	<b>21.8</b>	14.7	27.4
<b>Adjusted free cash flow</b>	<b>30.2</b>	49.3	123.8

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**14. Alternative performance measures (continued)**

**f) Return on capital employed**

Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items on a last twelve months' basis divided by period end capital employed as set out below. ROCE measures the ability of the Group's assets to deliver returns.

	<b>30 June 2022 unaudited US\$m</b>	<b>Half year 2021* unaudited US\$m</b>	<b>Full year 2021* audited US\$m</b>
Operating profit before exceptional and acquisition related items on a last twelve months' basis <sup>1</sup>	<b>225.3</b>	174.1	197.7
<b>Non-current assets</b>			
Acquired intangible assets	<b>32.7</b>	39.6	36.8
Property, plant and equipment	<b>231.7</b>	238.1	235.1
Right-of-use assets	<b>80.7</b>	90.1	91.6
Trade and other receivables	<b>14.6</b>	15.2	20.4
<b>Current assets</b>			
Inventories	<b>245.4</b>	207.6	229.6
Trade and other receivables	<b>301.2</b>	306.7	279.8
<b>Current liabilities</b>			
Trade and other payables	<b>(328.2)</b>	(320.1)	(328.9)
Lease liabilities	<b>(17.1)</b>	(16.1)	(17.8)
<b>Non-current liabilities</b>			
Trade and other payables	<b>(24.2)</b>	(20.5)	(24.2)
Lease liabilities	<b>(71.5)</b>	(80.5)	(81.2)
<b>Capital employed</b>	<b>465.3</b>	460.1	441.2
<b>ROCE</b>	<b>48%</b>	38%	45%

The amounts shown above for non-current assets, current assets, current liabilities and non-current liabilities at 30 June 2021 and 31 December 2021 exclude the discontinued Brazil and Argentina business.

<sup>1</sup> Operating profit before exceptional and acquisition related items on a last twelve months basis to 30 June 2022 of \$225.3 million is the operating profit before exceptional and acquisition related items for the six months ended 30 June 2022 of \$124.7 million (see note 14(a)) plus the operating profit before exceptional and acquisition related items for the year ended 31 December 2021 of \$197.7 million less the operating profit before exceptional and acquisition related items for the six months ended 30 June 2021 of \$97.1 million. Refer to note 3 for details of exceptional and acquisition related items.

\* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1).

**15. Retirement and other post-employment benefit arrangements**

The net surplus for the Group's retirement and other post-employment defined benefit arrangements (UK and other Group schemes), on an IAS 19 basis, was \$188.6 million as at 30 June 2022 (31 December 2021: \$21.1 million; 30 June 2021: net obligation of \$76.1 million). The increase in the net surplus during the six months ended 30 June 2022 is primarily due to movements on the UK scheme.

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

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

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 30 June 2022 of \$267.8 million (31 December 2021: \$108.0 million; 30 June 2021: \$19.4 million). The increase in the surplus during the six months ended 30 June 2022 of \$159.8 million predominantly relates to net actuarial gains of \$160.4 million (higher discount rate due to significantly higher corporate bond yields offset to some extent by asset losses due to the high degree of hedging in place in the portfolio), employer contributions (excluding administrative expenses) of \$20.3 million offset by foreign exchange translation movements.

Sensitivities regarding the discount rate and inflation assumptions used to measure the liabilities of the Coats UK Pension Scheme, along with the impact they would have on the scheme liabilities, are set out below. Interrelationships between assumptions might exist and the analysis below does not take the effect of these interrelationships into account:

	<b>30 June 2022</b>		<b>31 December 2021</b>	
	<b>+0.25%</b>	<b>-0.25%</b>	<b>+0.25%</b>	<b>-0.25%</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Discount rate	<b>(64.5)</b>	<b>66.2</b>	(108.8)	115.0
Inflation rate	<b>41.3</b>	<b>(51.3)</b>	74.6	(72.0)

An increase of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities decreasing by \$238.0 million (31 December 2021: \$401.4 million). A decrease of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities increasing by \$289.4 million (31 December 2021: \$502.7 million). The above sensitivity analysis (on a IAS 19 basis) considers the impact on the scheme liabilities only and excludes any impacts on scheme assets from changes in discount and inflation rates. As noted in the 2021 Annual Report, the Coats UK Pension Scheme is hedged against interest rate and inflation rate movements (currently over 90% hedged). Therefore on a Technical Provision basis, to the extent there is a change in the scheme liabilities due to movements in discount and inflation rates there would be offsetting impacts from the scheme assets due to the hedging in place.

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by \$81.1 million (31 December 2021: \$105.8 million).

**16. Fair value of assets and liabilities**

As at 30 June 2022 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

The following tables provide 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 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not observable market data (unobservable inputs).

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**16. Fair value of assets and liabilities (continued)**

**Financial assets measured at fair value**

<b>30 June 2022</b>	<b>Total US\$m</b>	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>
Financial assets measured at fair value through the income statement:				
Trading derivatives	1.9	-	1.9	-
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	5.9	0.9	-	5.0
<b>Total</b>	<b>7.8</b>	<b>0.9</b>	<b>1.9</b>	<b>5.0</b>
<b>30 June 2021</b>	<b>Total US\$m</b>	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>
Financial assets measured at fair value through the income statement:				
Trading derivatives	5.0	-	5.0	-
Derivatives designated as effective hedging instruments	3.3	-	3.3	-
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	6.0	1.0	-	5.0
<b>Total</b>	<b>14.3</b>	<b>1.0</b>	<b>8.3</b>	<b>5.0</b>
<b>31 December 2021</b>	<b>Total US\$m</b>	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>
Financial assets measured at fair value through the income statement:				
Trading derivatives	3.6	-	3.6	-
Derivatives designated as effective hedging instruments	1.9	-	1.9	-
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	6.0	1.0	-	5.0
<b>Total</b>	<b>11.5</b>	<b>1.0</b>	<b>5.5</b>	<b>5.0</b>

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**16. Fair value of assets and liabilities (continued)**

**Financial liabilities measured at fair value**

<b>30 June 2022</b>	<b>Total US\$m</b>	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(8.1)	-	(8.1)	-
Derivatives designated as effective hedging instruments	(1.5)	-	(1.5)	-
Borrowings	(63.9)	-	(63.9)	-
<b>Total</b>	<b>(73.5)</b>	<b>-</b>	<b>(73.5)</b>	<b>-</b>
<b>30 June 2021</b>	<b>Total US\$m</b>	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(1.0)	-	(1.0)	-
Borrowings	(69.0)	-	(69.0)	-
<b>Total</b>	<b>(70.0)</b>	<b>-</b>	<b>(70.0)</b>	<b>-</b>
<b>31 December 2021</b>	<b>Total US\$m</b>	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(0.9)	-	(0.9)	-
Borrowings	(67.5)	-	(67.5)	-
<b>Total</b>	<b>(68.4)</b>	<b>-</b>	<b>(68.4)</b>	<b>-</b>

Level 1 financial instruments are valued based on quoted bid prices in an active market. Level 2 financial instruments are measured by discounted cash flow. For interest rates swaps future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the various counterparties. For foreign exchange contracts future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the various counterparties. For equity instruments that are classified as level 3 financial instruments the carrying value approximates to fair value.

**17. Post balance sheet events**

On 20 July 2022 the Group completed the acquisition of 100% of the voting equity of Texon International Group Limited (see note 12 for further details).

## **18. Principal risks and uncertainties**

The principal risks and uncertainties which may have an impact on the Group's operations, performance or future prospects remain those detailed in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2021 and these are expected to stay the same for the remainder of 2022. These principal risks and uncertainties are as follows:

### **Strategic risks**

1. M&A programme ambition risk
2. Risk of ever increasing customer expectations and continuing ability to meet and exceed those expectations
3. Risk of failure to attract, retain and develop talent and capability

### **External risks**

4. Economic and geopolitical risk arising from political and demand uncertainty
5. Cyber risk
6. Climate change risk
7. Risk of supplier non-performance, unavailability and/or price increases of raw materials, labour and freight and/or logistical challenges
8. Environmental non-performance risk

### **Operational risks**

9. Health and Safety risk
10. Bribery and anti-competitive behaviour risk

### **Legacy risks**

11. Lower Passaic River legacy environmental matter

More information on these principal risks and uncertainties together with an explanation of the Group's approach to risk management is set out in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2021 on pages 46 to 59, a copy of which is available on the Group's website, [www.coats.com](http://www.coats.com).

The risk trends in relation to the above listed risks are considered to be the same as those detailed in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2021.

## **19. Related party transactions**

There have been no related party transactions or changes in related party transactions described in the 2021 Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

## **20. Directors**

The following persons were directors of Coats Group plc during the half year ended 30 June 2022 and up to the date of this report:

D Gosnell OBE  
R Sharma  
N Bull  
J Callaway  
A Fahy (Resigned 18 May 2022)  
H Lu  
F Philip  
J Sigurdsson

**Notes to the condensed consolidated financial statements**  
**For the half year ended 30 June 2022**

**21. Publication**

This statement will be available at the registered office of the Company, 4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE. A copy will also be displayed on the Company's website, [www.coats.com](http://www.coats.com).

**DIRECTORS' RESPONSIBILITIES STATEMENT**

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.28R (disclosure of related parties' transactions and changes therein).

The Directors of Coats Group plc are listed in Note 20 to the Condensed Consolidated Financial Statements.

By order of the Board,

D Gosnell  
Chairman  
1 August 2022

**United Kingdom**

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4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE

Tel: 0208 210 5000

Registered in England and Wales No. 103548