1 August 2023

Coats Group plc

Interim Results 2023

This statement contains inside information

Improving margins, strong free cash flow and continuing market share gains

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread and footwear components manufacturer, announces its unaudited results for the six months ended 30 June 2023.

Continuing operations	H1 2023	H1 2022	H1 2023 vs H1 2022		
			Reported	CER[1]	Organic[1]
Revenue	$715m	$801m	(11%)	(6%)	(19%)
Adjusted [1]					
Operating profit	$107m	$125m	(14%)	(9%)	(21%)
Basic earnings per share	3.5c	4.3c	(18%)		
Free cash flow	$52m	$30m			
Net debt (excl. lease liabilities)	$399m	$195m			
Reported [2]					
Operating profit	$72m	$111m	(35)%	(31)%	(34)%
Basic earnings per share [4]	1.5c	3.4c	(55%)		
Net cash generated by operating activities	$53m	$20m			
Interim dividend per share	0.81c	0.70c			

Strategic Highlights

- Strategic projects delivered a further $21 million of efficiencies, with 2023 guidance increased from $20 million to $30 million and overall project savings on track for $70 million by 2024 for $50 million cash cost
- Delivered $5 million of integration efficiencies from Texon and Rhenoflex integration in the first half, with full year run-rate synergies now expected to be $15 million, increased from $11 million in 2024
- As a result of strategic actions, increased adjusted operating margin of 15.0%, up 30bps on H1 2022 on a proforma basis (including acquisitions)
- Continued portfolio optimisation activity, with agreement announced in July 2023 to divest low margin European Zips business
- New Sustainability Hub opened in Madurai, India to work alongside Shenzhen, China on driving further innovation in sustainable materials and supporting recycled and renewable materials transition
- Further good progress towards deficit cash payment "off trigger" for UK pension scheme, with potential to increase free cash flows within short to medium term

Financial Highlights

- Reported revenue down 11%, including contributions from 2022 Footwear acquisitions
- Organic revenue 19% lower against strong comparators, adversely impacted by widespread industry destocking in Apparel and Footwear, and previously disclosed customer contract insourcing in Performance Materials
- Continuing market share gains in both Apparel and Footwear thread and components, and key contract wins in Performance Materials
- Resilient operating margins reflect accelerated efficiencies from strategic projects and from integration of Footwear acquisitions, together with ongoing pricing benefits, with input costs moderating in some areas
- Strong free cash flow of $52 million, despite significantly lower volumes, as a result of efficiencies and excellent working capital control. Half year net debt (excluding lease liabilities) of $399 million, with 1.6x leverage[3], comfortably within 1-2x target range
- Interim dividend of 0.81 cents per share, up 15% vs 2022; reflecting our confidence in delivering progress for the benefit of all our stakeholders in 2023 and beyond

Outlook

As expected, the first half reflected the continuation of the widespread industry destocking in Apparel and Footwear, against a very strong prior year comparator, together with the previously disclosed customer contract in-sourcing in Performance Materials. While we have continued to make market share gains and underpin performance through our actions during the half, we are now expecting a more gradual improvement in market demand during the second half. As a result, we continue to expect our full year trading to be in line with market expectations, albeit towards the lower end of the analyst forecast range.[5] Further, we remain confident that due to our actions, and supported by increasing market volumes, we will achieve our 2024 margin goal of c.17%.

Our leadership positions in industrial threads and footwear components, wide geographic footprint, strong digital platform and technical support capabilities, enable us to offer a differentiated customer proposition. This, when combined by our investment in innovation and our growing, industry-leading sustainably sourced and manufactured products, means we are well positioned to grow our revenue and margin over the longer term, with ongoing strong cash generation supporting investment in our strategy.

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

“Coats’ trading performance in the first half of 2023 was against a strong prior year comparator and the backdrop of widespread industry destocking.

We have continued to make significant progress on our strategic objective of making Coats a stronger, fitter and more focused Group. Our clearly-differentiated customer proposition enabled us to further increase our market share in Apparel and Footwear and secure key contract wins in Performance Materials. We opened a new Sustainability Hub in India to develop next-generation materials for sustainable threads and continued to optimise our portfolio with an agreement to divest our low-margin European Zips business. Our financial results demonstrate the effectiveness of our actions in driving our margin performance and free cash flow.

On our strategic projects, we delivered a further $21 million of efficiencies in the half and are increasing our 2023 guidance from $20 million to $30 million, with overall project savings on track for $70 million by 2024. Additionally, we now expect increased full-year run-rate synergies from the integration of Texon and Rhenoflex of $15 million in 2023, up from $11 million in 2024 previously.

Our leadership position in industrial threads and footwear components, when combined with our investment in innovation and sustainably-sourced and manufactured products, positions us well to grow our revenue and margin and deliver ongoing strong cash generation in line with our strategy.”

[1.] *Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 15. Constant Exchange Rate (CER) metrics are H1 2022 results restated at H1 2023 exchange rates. Organic figures are on a CER basis and exclude contributions from Texon and Rhenoflex acquisitions.*
[2.] *Reported metrics refer to values contained in the IFRS column of the primary financial statements in either the current or comparative period.*
[3.] *Leverage calculated on a proforma and frozen GAAP basis and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt and includes a full 12 months of EBITDA for Texon and Rhenoflex.*
[4.] *From continuing operations.*
[5] *Current company compiled analyst forecast range for Group adjusted operating profit in the year to 31 December 2023 is $240 million to $261 million.*

Conference Call

Coats Management will present its interim results in a webcast at 09.45 BST today (Tuesday, 1 August 2023). The webcast can be accessed at www.coats.com/en/investors/investors-overview. The webcast will also be made available for replay on www.coats.com.

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About Coats Group plc

Coats is a world leader in thread manufacturing and structural components for apparel and footwear, as well as an innovative pioneer in performance materials. These critical solutions are used to create a wide range of products, including ones that provide safety and protection for people, data and the environment. Headquartered in the UK, Coats is a FTSE250 company and a FTSE4Good Index constituent. Revenue in 2022 was $1.6 billion. Trusted by the world's leading companies to deliver crucial, innovative, and sustainable solutions, Coats provides value-adding products including apparel, accessory and footwear threads, structural footwear components, fabrics, yarns and software applications. Customer partners include companies from the apparel, footwear, automotive, telecoms, personal protection, and outdoor goods industries. With a proud heritage dating back more than 250 years and spirit of evolution enabling it to constantly stay ahead of changing market needs, Coats has operations across some 50 countries with a workforce of 17,000, serving its customers worldwide. Coats connects talent, textiles, and technology, to make a better and more sustainable world. Worldwide, there are four dedicated Coats Innovation Hubs, where experts collaborate with partners to create the materials and products of tomorrow. It participates in the UN Global Compact and is committed to Science Based sustainability targets for 2030 and beyond, with a target of achieving 'net zero' by 2050. Coats is also committed to achieving its goals in Diversity, Equity & Inclusion, workplace health & safety, employee & community wellbeing, and supplier social performance. To find out more about Coats visit www.coats.com.

Cautionary statement

Certain statements in this interim 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.

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain. For the purposes of Article 2 of Commission Implementing Regulation (EU) 2016/1055, the person responsible for arranging for the release of this announcement on behalf of Coats Group plc is Jackie Callaway, Chief Financial Officer.

Group Chief Executive’s review

Purpose and Strategy
Coats is the world’s leading industrial thread and footwear components company. Our purpose is to connect talent, textiles and technology to make a better and more sustainable world. Our strategy is to accelerate profitable sales growth by leveraging innovation, sustainability, digital technologies and our global scale to create world class products and services, delivering value to our stakeholders.

2023 Interim Results Overview

Introduction
As expected, it has been a challenging first half with reported revenue down by 11%, including the contribution from the 2022 Footwear acquisitions. This was driven by lower Group organic revenue of 19%, which was adversely impacted by widespread industry destocking in Apparel (20% organic decrease) and Footwear (23% organic decrease) in particular, together with the previously disclosed customer contract in-sourcing in Performance Materials (14% organic decrease). This performance also reflects very tough comparator numbers, around the peak of unprecedented growth from customer restocking in the prior period, following the lifting of COVID restrictions. Industry inventory levels are continuing to moderate. However, the precise timing of the recovery in volumes is difficult to predict with certainty, although Coats is increasingly well-positioned to benefit from this.

We have continued to make significant progress against our strategic objectives, despite the industry headwinds. We further increased our estimated market share in apparel threads in the half by around 100 bps (to c.24%). We also estimate an increase in footwear market share by around 100 bps in threads (to c.28%) and components (to c.24%), giving a blended c.26% footwear market share. We are able to increase our market share year-on-year, as consistently demonstrated, because we are the global leader in industrial threads and footwear components, offering a differentiated customer proposition that others cannot replicate. This includes our global presence, which offers customers flexibility and responsiveness, as well as our strong digital platform and technical support capabilities. In addition, our investment in innovation enables us to bring to market a growing and industry-leading range of in-demand, sustainably sourced products. This is complemented by an ongoing programme to make our own operations demonstrably sustainable, which is driven by consumers and the requirements of leading, global brands.

We have continued to invest in bringing new sustainable products to market. In the first half, we opened a new Sustainability Hub in Madurai, India to sit alongside our recently re-purposed Shenzhen, China Hub. These Hubs are working together to innovate next generation materials for sustainable threads. In addition, having set new shorter term sustainability targets for our own operations at the last full year results, we are putting in place measures to reach our targets, with reductions in Scope 1 and Scope 2 emissions already tracking ahead of the 2030 target trend line.

In the context of the significantly lower sales volumes in the half, and our continued investments, we are pleased with our adjusted operating profit performance of $107 million (H1 2022; $125 million), with an adjusted operating margin of 15.0% (H1 2022: 15.6%). This is only 50bps lower compared to the prior period, and 90bps higher than H2 2022. On a proforma basis operating margins were up 30bps year-on-year, including the contribution from our July and August 2022 acquisitions in the first half 2022 performance. This result includes the beneficial impact of our strategic projects, which commenced in March 2022, and which we have continued to progress at pace. These self-help measures have delivered a further $21 million of efficiencies in the half and we have increased our full year guidance from $20 million to $30 million (in addition to the $20 million of savings delivered in 2022). Overall project savings are on track for $70 million by 2024. We have also benefited from being able to largely maintain our 2022 pricing, without increasing customer churn. This has been achieved during a period where we have seen moderating input costs in some areas, such as raw materials and freight, although wage inflation, in particular, remains elevated. Customer loyalty reflects our market differentiation, including the quality of our products and our high-levels of customer service. Reported operating profit was $72 million (H1 2022: $111 million).

We remain confident that due to our actions, and supported by increasing market volumes, we will achieve our 2024 margin goal of c.17%. In addition we remain on track to deliver our medium term organic revenue growth CAGR of c.6%

Our Footwear components acquisitions have not been immune from the significant industry destocking in the half, performing in line with the Footwear division as a whole. Notwithstanding this, our rationale for these acquisitions remains intact. Our Footwear division is now the leading global component and thread supplier to the highly attractive footwear market, within a fragmented supply chain. In addition, the division has a strong focus on the faster growth and premium-priced quality, sports and athleisure brands with an enhanced portfolio of sustainable products from recycled and biomaterial sources. Indeed, we are seeing great potential from the cross-selling of our broad range of complementary products, as customers look to consolidate their supply chain with a longstanding and trusted supplier, and there are several long lead-time opportunities currently in train with leading brands. We have also delivered $5 million of initial efficiencies from the integration of Texon and Rhenoflex in the half, also favourably impacting our operating margin. We now expect to deliver $15 million of run-rate efficiencies by the end of the year, ahead of our previous $11 million targeted savings by 2024. Our enhanced portfolio of footwear components and thread means, as previously announced, that we are reporting these results for the first time according to three new divisions: Apparel, Footwear and Performance Materials.

What is also pleasing is that during the half we have generated positive free cash flow, despite the significant volume headwinds. We generated adjusted free cash flow of $52 million (H1 2022: $30 million). Net debt (excluding lease liabilities) at 30 June 2023 was $399 million (31 December 2022: $394 million), with proforma leverage of 1.6x net debt/EBITDA, remaining comfortably within our target range of 1-2x net debt/EBITDA.

UK Pensions

We continue to make significant positive progress in relation to the de-risking of our defined benefit UK pension position. Our aspiration remains, in the medium term, to fully insure the Scheme and remove it from the Group balance sheet, in a cost effective manner.

Since we updated in March 2023, where we highlighted the new on / off trigger mechanism agreed with the Trustees of the Scheme, we have seen further improvements in the funding position to a deficit of £25 million (being 99% of the technical deficit valuation). We have also agreed with the Trustees an amendment to the on / off trigger mechanism to reflect the latest mortality assumptions. This has reduced the funding range for the on / off triggers to 98-100% (previously 99-101%), further increasing the probability of the off trigger being reached in the near future. This has the potential to significantly reduce or eliminate the existing levels of cash contributions made into the Scheme, and thereby increase free cash flows generated by the Group, within the short to medium term.

Strategic Projects

Building on our long track record of delivering efficiencies, we have continued to progress our strategic projects, originally announced in March 2022 at pace. These will optimise our footprint, manage our cost base lower and deliver operating efficiencies, as well as mitigate structural labour availability issues in the US. These projects are beneficial to the Group’s margin in a period of industry-wide headwinds, and position us to deliver growth and margin enhancement once markets recover.

The scope of these projects was expanded in March 2023, and we expect to deliver total savings of $70 million by 2024, for a total cash cost of $50 million. In the half, we delivered a further $21 million of efficiencies and we have increased our guidance for incremental benefits in the year from $20 million to $30 million.

Optimising the portfolio and footprint and mitigating structural US labour availability issues

Our initiatives in the US and Mexico are designed to optimise our footprint, deliver operating efficiencies and mitigate structural labour availability in the US. Our new, state-of-the-art facility at Huamantla, Mexico, which opened towards the end of FY 2022, is now fully operational and performing well. This operates alongside our existing plant at Orizaba, which has received significant new investment, and these projects have been completed on-time. As part of the fit-out of these factories, we have installed new, proprietary technology which reduces the number of manufacturing processes and lowers energy consumption, while increasing our flexibility to meet customer needs. In addition, the build and fit-out of our second new plant at Toluca, Mexico is now complete, with commissioning expected during the second half.

Improving the overall cost base efficiency

A further focus is on improving the overall cost base efficiency of the Group, with particular emphasis on our higher cost UK and US locations. We have been moving a number of our corporate and overhead activities closer to our operations and customers. The implementation of this project was accelerated in FY 2022 with all actions now completed.

Transformation of Asian Operations, focusing on China and India

The project to transform our Asian operations has a particular focus on China and India. This project is designed to optimise our footprint and efficiency in our long-established Indian operations, while bringing a greater focus to the increasingly important domestic market in China. Work in both countries has commenced and is in line with schedule. In India, there have been headcount reductions, with office and warehouse space being consolidated. In China, there have also been headcount reductions with lower-margin zip production in the process of being outsourced to a third party supplier, with completion expected before the end of the year.

Texon and Rhenoflex

The 2022 acquisitions of Texon and Rhenoflex have increased our presence in the footwear market and, when combined with our existing footwear thread business, has made us the global market leader in the supply of components to the highly attractive footwear market, within a fragmented supply chain.

Despite the current de-stocking headwinds, our strategic rationale for buying these businesses remains intact. These include a strong focus on fast-growth, premium-priced, sports and athleisure brands, a portfolio of highly-differentiated and innovative components, as well as predominantly brand-specified positions which typically last over the production life of the end-product. In addition, there is an existing focus on innovation and sustainability, with a leading portfolio of increasingly in-demand sustainable products, including recycled and plant based components. The scale and product differentiation we have in this market, positions us well to add to our leading market share. We are working on a number of long-lead time opportunities with prominent brands on footwear products, that are being directly enabled by our enhanced presence, complementary capabilities and customer relationships.

At the time of acquisition, we said we would deliver an initial $11 million of annualised cost efficiencies from the integration of the combined business in 2024. These efficiencies principally relate to the consolidation of duplicated roles and back-office functions and the delivery of procurement efficiencies. In the first half, we delivered $5 million of efficiencies, and now expect to deliver $15 million of run-rate efficiencies in the full year, ahead of our original plan.

Our planning for the next phase of integration is under way, which will comprise a consolidation of the division’s footprint, and we expect to announce these plans at the full year 2023 results. We have already consolidated our operations in Vietnam, bringing together our existing footwear threads operations with our state-of-the-art footwear components sites, part of the Texon and Rhenoflex acquisitions. The integrated Vietnamese business is 100% owned by Coats and now provides a single point of contact for footwear thread and component customers, innovative new production technologies and efficiency benefits.

Looking beyond current market conditions, we are well-positioned in attractive footwear markets with significant, long term growth characteristics. Having now owned the footwear component businesses for around a year, we are also increasingly confident that there is significant opportunity for long-lead revenue synergies and further market share gains, as well as significantly greater cost efficiencies than initially planned.

Focusing on Attractive Markets

Our strategy is to drive profitable sales growth with a focus on attractive markets. This includes optimising our portfolio and footprint and divesting businesses in less attractive markets, where there is a lower margin opportunity. Consistent with this, we have pursued a programme of divestments and business exits in prior periods, as well as the previously announced divestment of our smaller business operations in Mauritius and Madagascar in January 2023.

Continuing this progress, in July 2023 we announced an agreement to divest our low margin European Zips business for a cash consideration of around $1 million after typical debt-like items and the transaction is expected to complete in Q3 2023. In the year ended 31 December 2022, the business generated revenue of around $50 million with adjusted operating margins well below the Group average.

Strategic Enablers: Innovation, Sustainability and Digital

Our strategic enablers are Innovation, Sustainability and Digital and these underpin our strategy to accelerate profitable sales growth whilst delivering sustainable value to our stakeholders. We have progressed our enablers in the half, as follows:

Innovation

We innovate to deliver differentiated, highly-engineered products with a focus on driving profitable growth. Much of our innovation is closely linked to sustainability, a key driver in our markets. Sustainability impacts our markets in a number of different ways, including through the increased adoption of products made from recycled or bio-materials, more efficient production techniques, increasingly lightweight and more protective products as well as technologies that enable the end-of-life recycling of products. We innovate according to long term technology roadmaps and in close collaboration with customers.

All our divisions contribute to the pipeline of new and innovative products, with a few highlights as follows:

- Following launch towards the end of 2022, our EcoCycle product, a water dissolvable concept which enables easy and low-cost separation of textile and non-textile products in end-of-life garments, has been developed for specific application to denim garments;

- We have a number of projects underway to develop next-generation materials for garments, including the use of recycled and bio-materials;

- Using Rhenoprint,™ a market-leading process that generates zero waste in the manufacture of structural components, we have been able to launch a footwear toe puff which, for the first time, contains recycled material. In addition, using the same process, we have started to produce footwear heel counters with a significantly greater recycled material element;

- Our Ecostrobe chemical and water-free process has enabled us to launch our first fully recycled polyester footwear insole. This differentiated product has now gone into production for initial customers;

- Within our Personal Protection business, we have launched a line of Signal Lucence Pro trims, with early customer interest. This high visibility tape, which is integrated in protective clothing for firefighters, has three levels of visibility, offering fluorescent, reflective and glow-in-the-dark attributes. This combination in one product is an industry first, enhancing wearer safety;

- In addition, we have launched our first dark grey line of reflective tape for protective clothing. The tape meets all safety regulations, as well as being more integrated into protective clothing in a way that traditional silver-coloured trims are not. This meets a growing demand from larger companies for smart, as well as compliant employee protective workwear.

Sustainability

Part of our company purpose is to make a better and more sustainable world, enabling us to help people and the planet. This focus also helps us to differentiate our offerings, making us a supplier of choice in the rapidly growing market for sustainable apparel and footwear products. Also, by using less resources and being more efficient, this reduces our costs, facilitating greater headroom for investment, including further innovation and sustainability applications.

Our long term commitment is to be Net Zero by 2050, initially by achieving our existing 2030 SBTi goals, which are to reduce our scope 1 and 2 emissions by over 46%, with scope 3 reduced by 33% over the same time frame. We also aim to have 70% of our global energy consumption from renewables by 2030, with no Coats products to be made from new, oil-extracted materials. We will adopt a circularity approach, creating products and packaging solutions that enable recycling and reuse, within our own operations and across the wider garment industry. We have made particularly good progress with our scope 1 and 2 emission reduction targets, being ahead of the 2030 target trend-line. Progress against other SBTi goals is on track to meet our 2030 goals.

In March 2023, we announced new medium-term sustainability targets with an FY 2022 baseline. The targets have continued our focus on people, water, emissions and waste reduction, as well as product innovation and materials transition. During the period, we have started to focus on implementing the measures that will enable us to achieve these new 2026 targets, as part of our Net Zero journey.

Despite the widespread industry destocking in the first half, we have continued to increase sales of our range of 100% recycled products, where we are the clear global market leader. Revenue from our recycled products increased in the period by 15% on a CER basis to $70 million, offsetting market headwinds, as customers continue their transition to sustainable materials.

In line with GHG Protocols for reducing CO2e emissions, we are changing our disclosure from reporting recycled sales revenue to a materials transition approach, based on the volume of primary raw materials that we purchase. This will expand the scope of our disclosure beyond our premium range of sewing threads, covering many more sustainable end-use categories for sewing thread, as well as footwear component materials for the first time, with the revised disclosure implemented from FY23. Our target is to transition to 60% of sustainable primary raw materials by 2026.

In March 2023, as part of a previously announced $10 million investment over five years to help accelerate achievement of Coats ambitious sustainability targets, we opened our new Sustainability Hub in Madurai, India. This sits alongside our recently re-purposed Shenzhen, China Hub. The Hubs are working together to innovate next generation materials for sustainable threads for apparel, footwear and performance materials applications, supporting the transition to recycled and renewable materials. From the same sustainable investment fund, we are also introducing innovative water-free, dyeing technology into a number of our manufacturing facilities in the second half of the year, as well as those of certain collaborating brands.

Digital

Enhancing our global digital infrastructure and capability is a key piece of our strategy, and a differentiator in our markets. It delivers key customer service benefits and embeds relationships, as well as bringing greater efficiency and flexibility to our operations.

During the half, we continued to expand usage of our digital customer ecosystem, ShopCoats, following enhancements made in the prior year. ShopCoats offers customers efficiency and business improvements through its automated bulk and sample ordering and status management capabilities. We have also continued our critical focus on data protection and security by rolling-out a number of IT system initiatives across our global operations.

As well as adopting digital technology within our own operations and connecting these with our customers' systems, Coats Digital, part of Apparel, sells software to third party customers, with a recurring theme of making operations more efficient, including using less resources.

Dividend

Notwithstanding, the widespread destocking in the half, we have generated good levels of free cash flow and continue to have a strong Balance Sheet. We are well-positioned in our markets and seeing continued market share gains, with further growth and margin opportunities as the market stabilises. With these factors in mind, the Board has decided to pay an interim dividend of 0.81 cents per share, a 15% increase on the prior year. The interim dividend will be paid on 15 November 2023 to ordinary shareholders on the register at 20 October 2023, with an ex-dividend date of 19 October 2023.

The Board will continue to review the level of dividend payment to shareholders, on the basis of the performance of the business and its longer term potential, including margin and earnings progression, as well as cash generation.

Operating Review

Continuing operations	H1 2023 $m	H1 2022 $m	H1 2022 CER[1] $m	Inc / (dec) %	CER[1] inc / (dec) %	Organic[3] inc / (dec) %
Revenue						
By division						
Apparel	354	472	444	(25%)	(20%)	(20%)
Footwear	184	115	113	60%	64%	(23%)
Performance Materials	177	214	205	(18%)	(14%)	(14%)
Total	**715**	**801**	**762**	**(11%)**	**(6%)**	**(19%)**
By region						
Asia	398	475	459	(16%)	(13%)	(21%)
Americas	133	172	170	(23%)	(22%)	(23%)
EMEA	185	154	133	20%	39%	(6%)
Total	**715**	**801**	**762**	**(11%)**	**(6%)**	**(19%)**
Adjusted operating profit [2]						
By division						
Apparel	53	74	70	(29%)	(24%)	(24%)
Footwear	38	33	32	17%	19%	(24%)
Performance Materials	16	18	16	(9%)	-	-
Total adjusted operating profit	**107**	**125**	**118**	**(14%)**	**(9%)**	**(21%)**
Exceptional and acquisition related items	(35)	(13)				
Operating profit	**72**	**111**				
Adjusted operating margin [2]						
By division						
Apparel	15.0%	15.7%	15.7%	(80bps)	(70bps)	(70bps)
Footwear	20.8%	28.5%	28.6%	(770bps)	(780bps)	(40bps)
Performance Materials	9.1%	8.2%	7.8%	90bps	130bps	130bps
Total	**15.0%**	**15.6%**	**15.5%**	**(50bps)**	**(50bps)**	**(30bps)**

1 *Constant Exchange Rate (CER) are 2022 results restated at 2023 exchange rates.*
2 *On an adjusted basis which excludes exceptional and acquisition-related items.*
3 *Organic on a CER basis excluding contributions from the Texon and Rhenoflex acquisitions*

2023 Interim Operating Results Overview

Group revenue of $715 million decreased 11% on a reported basis, 6% on a CER basis (including the initial impact of the Texon and Rhenoflex acquisitions), and decreased 19% on an organic basis. The organic revenue decline, against a very strong prior year comparator, reflects the continuation of the widespread industry destocking in Apparel and Footwear, together with previously disclosed customer contract in-sourcing in Performance Materials.

Group adjusted operating profit of $107 million decreased 9% on a CER basis (H1 2022: $125 million reported), with operating margins down 50bps to 15.0% (2022: 15.6%). On a proforma basis, including acquisitions for the first half of year, margins were up 30bps year on year. The year-on-year reductions in operating profit primarily reflect the impact of lower volumes due to market conditions. This was partially offset by largely maintained pricing, with some input cost deflation and the ongoing benefits from strategic projects and integration synergies. On a reported basis operating profit was $72 million (H1 2022: $111 million), after $35 million of strategic project costs, asset write downs as a result of the announced disposal of EMEA Zips and acquisition-related items.

Adjusted earnings per share (‘EPS’) decreased by 18% to 3.5 cents (2022: 4.3 cents) largely as a result of the reduction in operating profits, with some offset from a continued reduction in our effective tax rate. Reported EPS of 1.5 cents (H1 2022: 3.4 cents) was 55% lower, including the impact of exceptional and acquisition related items.

Revised Divisional Reporting from 1 January 2023

As a result of the acquisitions of Texon and Rhenoflex, our new organisational and reporting structure, effective 1 January 2023, is comprised of three divisions: Apparel, Footwear and Performance Materials. The new Footwear division consists of the existing Coats footwear thread business (formerly part of A&F), and the acquired footwear components businesses, Texon and Rhenoflex.

As announced at our 2022 Capital Markets Day, the medium-term sales growth CAGR for the new operating divisions are anticipated to be 3-4% for Apparel, c.8% for Footwear, and 6-9% for Performance Materials, resulting in medium-term Group growth of c.6%. The goal for the Group 2024 adjusted operating margin is c.17%, comprising 15-16% for Apparel, >20% for Footwear, and 13-14% for Performance Materials.

Apparel

Coats is the global market leader in supplying premium sewing thread to the Apparel industries. We are the trusted value-adding partner, providing critical supply chain components and services, and our portfolio of world-class products and services exist to serve the needs and requirements of our customers and brand owners.

Revenue of $354 million (H1 2022: $444 million) was down 20% on a CER basis (25% reported). As anticipated, revenue was lower year-on-year, against a very strong prior year comparator, and reflected the continuation of the widespread industry destocking, after a surge of post-COVID-19 inventory restocking in H1 2022, as well as buffer buying in the face of supply chain disruption.

Despite challenging market conditions, our Apparel business benefited from market share gains, with an increase in our estimated market share by around 100bps to c24%. We were also able to largely maintain pricing and leverage the moderating input costs in some areas. We continue to be very well-positioned in our markets, as the global partner of choice for our customers, with market-leading product ranges and customer service and a clear leadership position in innovation and sustainability.

Our proactive procurement strategy has put us in a good position to benefit from raw material price moderation. The focus on material transition to recycled products has helped to scale our recycled product offering and minimise the cost premium associated with these products. This, alongside our agile supply chain network, has enabled us to help our customers and brands achieve their sustainability goals, helping us take market share and maintain prices despite price moderation in certain areas.

With market conditions expected to gradually improve in the second half, our strong market position, global presence, differentiation and focus on leading brands provide further opportunities for growth and share gains.

Apparel thread revenue decreased by 17%, Zips and Trims decreased by 44%, with Coats Digital 20% lower as a result of reduced customer investment.

Adjusted operating profit of $53 million (H1 2022: $70 million) decreased 24% vs the prior year on a CER basis. Adjusted operating margin was 70bps lower at 15.0% on a CER basis (H1 2022: 15.7%). Savings from self-help actions, including the strategic projects, partially offset the adverse impact from lower sales volumes.

Footwear

We are the trusted partner to the footwear industry, shaping the future of footwear for better performance through sustainable and innovative solutions. The combination of Coats, Texon and Rhenoflex makes us a global champion with a portfolio of highly engineered products with strong brand component specification, primarily targeted at the attractive athleisure, performance, and sports markets.

Despite continued industry destocking, Footwear benefited from market share gains. We increased our estimated market share by around 100bps to a blended c.26% (with footwear threads at an estimated c.28% and structural components at an estimated c.24%). There was solid pricing, even as some input costs began to moderate. We are realising the benefits of the acquisitions of Texon and Rhenoflex with commercial opportunities being pursued. In challenging market conditions, our leading position globally has allowed us to leverage the strength of our customer relationships and market leading product ranges.

Footwear revenue increased 64% to $184 million (H1 2022: $113 million) on a CER basis (60% reported), including the Texon and Rhenoflex acquisitions, which were acquired in July and August 2022 respectively. This was against a very strong prior year comparator and included an adverse impact from the continuation of widespread industry destocking that commenced in Q4 2022. Excluding the contribution from Texon and Rhenoflex, organic revenue decreased by 23%. There was a similar year-on-year percentage decrease in structural components revenue.

Despite the market headwinds, we continued to deliver share gains and programme wins, reflecting our position as a trusted partner with our global accounts programme, in which we dedicate resources to key brands and retailers.

The athleisure, performance and sports markets within Footwear continue to be attractive. Supplier consolidation and nearshoring, including de-risking from China, are becoming prominent trends, with brands placing increasing emphasis on sustainability and innovation. With market conditions expected to gradually improve in the second half, these important, longer-term trends provide Footwear with further opportunities for growth and share gain.

Adjusted operating profit was $38 million with reported margins down 770bps to 20.8% with significantly lower sales volumes and the dilutive impact of the acquisitions. These acquisitions remain on track to be accretive for the Group, post synergies. On a proforma basis, including the July and August 2022 acquisitions in H1 2022, margins were up 220bps year on year. This is as a result of strong commercial delivery in a difficult market environment, pricing benefits largely being maintained in the context of some lower input costs, the delivery of acquisition synergies and general cost discipline. Acquisition integration has so far focused on commercial and general & administrative costs, as well as on procurement. These activities are proceeding well and we now expect full year synergies and efficiencies to be ahead of previous expectations.

Performance Materials (‘PM’)

We are experts in the design and supply of a diverse range of technical products that serve a variety of strategic end use markets. Building on over 250 years of leadership in thread, we incorporate specific design features to provide highly engineered solutions for our customers. The division operates across Personal Protection, Composites and Performance Threads. Personal Protection offers multi-hazard industrial applications for industrial, energy, firefighting and military wear. Composites provides products and solutions for fibre optic cables and oil & gas piping sectors and light weighting solutions for automotive components. Performance Threads has applications in a range of sewn products including safety-critical automotive airbags and seat belts, outdoor goods, household products like bedding and furniture, hygiene-sensitive consumer goods like feminine hygiene products and tea bags.

The Group discloses PM in three sub-segments: Personal Protection (39% of H1 2023 divisional revenue), Composites (20% of H1 2023 divisional revenue) and Performance Thread (41% of H1 2023 divisional revenue). The medium-term growth rates expected for each sub-segment are high single digits for Personal Protection, low double-digits for Composites, and global GDP growth for Performance Threads. The overall medium-term growth target for the division is a mid-high single digit growth CAGR (6-9%).

PM revenue declined 14% to $177 million in H1 2023 (H1 2022: $205 million) on an organic and CER basis (18% on a reported basis), with Personal Protection decreasing by 22%, Composites decreasing by 9% and Performance Threads lower by 7% (all on an organic basis). The largest factor driving the decrease was the in-sourcing of production by a large US customer in personal protection, which resulted in $20 million lower revenue from the customer compared to H1 2022. There was also destocking at some US telecommunication customers in Composites, and from customers in a number of Household and Recreation markets. Underlying PM sales remained strong underpinned by share gains in European telecommunications, strong automotive sales and strong reflective trims sales.

Within this, there were significant new customer share wins across all PM sub-segments. These included gains at two large US Personal Protection manufacturers and a global agreement with a large cable manufacturer in the Composites subsegment. Within Performance Threads there were gains at two large automotive safety component customers and at a global feminine hygiene product manufacturer.

Adjusted operating profit was unchanged on an organic and CER basis at $16 million (H1 2022: $16 million) despite the lower sales volumes. Adjusted operating margins were up on an organic and CER basis by 130 bps to 9.1% (H1 2022: 7.8%) due to the contribution of strategic project savings, recovery in EMEA margins (following a temporary supply issue last year), and self-help actions. PM margins in the half also included c.$2 million of duplicate running costs in relation to the US / Mexico plant transitions. Excluding these costs, PM margins would have been a further 130bps higher at 10.4%.

Geographical Performance

In line with divisional performance, there was a significant revenue decline on a CER organic basis in all geographic regions, due to the market headwinds previously mentioned.

Our Asia revenue, 56% (H1 2022: 59%) of Group, decreased 13% CER to $398 million (2022: $459 million), which included an 8% contribution from the acquisitions made in H2 2022. All key Asian markets were impacted by the large scale industry destocking in the Apparel and Footwear divisions.

Our Americas revenue, 19% (H1 2022: 21%) of Group, decreased 22% CER to $133 million (2022: $170 million). All key markets were impacted by the challenging market conditions in H1 2023, although with comparatively more solid performances in Colombia and Mexico. The US was also impacted by customer insourcing of a significant PM contract in H2 2022.

In EMEA, 26% (2022: 19%) of Group, revenue increased 39% CER to $185 million (2022: $133 million), which included a 45% contribution from the Texon and Rhenoflex acquisitions, and as a result organic revenues declined 6%. Excluding acquisitions, performance was driven by positive momentum in PM in telecommunication composites and transportation, as fibre optic sales remained robust in EMEA. Organic revenue growth also benefited from the weakening Turkish Lira, as we continued to price largely in US Dollars.

Financial Review

Revenue
Group revenue decreased 11% on a reported basis and 6% on a CER basis. On an organic basis revenue decreased 19%, which excludes the Texon and Rhenoflex acquisitions. All commentary below is on an organic basis unless otherwise stated.

Operating Profit
At a Group level, adjusted operating profit decreased from $125 million in 2022 to $107 million (including acquisitions) and adjusted operating margins decreased 50bps to 15.0%. The table sets out the movement in adjusted operating profit during the period.

	$m	Margin %
H1 2022 adjusted operating profit	**125**	**15.6%**
Volumes impact (direct and indirect)	(82)	
Price/mix	20	
Raw material deflation	4	
Freight deflation	5	
Other cost inflation (e.g. labour, energy)	(17)	
Productivity benefits (manufacturing and sourcing)	17	
Strategic projects savings	21	
Other SD&A savings	8	
Others (e.g. FX)	(7)	
Contribution from Texon and Rhenoflex acquisitions (excluding synergies)	9	
Texon and Rhenoflex synergies	5	
H1 2023 adjusted operating profit	**107**	**15.0%**
Exceptional and acquisition related items	(35)	
H1 2023 reported operating profit	**72**	

In the first half, there were significant volume headwinds as a result of industry destocking in the Apparel and Footwear businesses, as well as the adverse impact of the customer contract in-sourcing in Performance Materials, and very strong prior year comparators. From the second half of 2022, as anticipated, we saw a slow-down in demand due to widespread industry destocking in both Apparel and Footwear. The direct and indirect volume impact of this, together with the very strong H1 2022 comparators, resulted in significant direct and indirect volume headwinds.

Our proactive approach to pricing during 2021 and 2022 when inflationary pressures accelerated at unprecedented levels, has meant that we have continued to see pricing gains in the half. We have started to see an easing of key raw material input and freight costs during the latter part of 2022, and this has continued into the first half. The favourable impact from this has acted as a significant partial offset to some of the volume impacts seen in the period.

Selling, Distribution and Administration (SD&A) costs are below last year, despite the ongoing inflationary impacts in some areas, as we controlled our costs in challenging market conditions. We have also benefited from a further $21 million of efficiency savings (total savings to date are $41 million, including $20 million delivered in 2022), in relation to our strategic projects announced in early 2022, with the savings accelerated. Since these projects began, we have increased the total efficiencies we expect to deliver by 2024 to $70 million (from $50 million) through expanding the scope of the projects, with a focus on our Asian operations in India and China.

Our 2022 acquisitions, Texon and Rhenoflex, delivered an $14 million post-acquisition contribution to adjusted operating profit in the half, including $5 million of synergy benefits. These acquisitions have experienced similar destocking headwinds as the wider Apparel and Footwear businesses. However, we have delivered integration synergies to further underpin performance and now expect total run-rate synergies of $15 million to be delivered by the end of the year (original expectations of $11 million in 2024).

The Group's adjusted operating margins decreased by 50bps to 15.0% on a CER basis (H1 2022: 15.5%), reflecting the impact of the year-on-year volume declines with significant offset from other, controllable factors. On a proforma basis, including acquisitions for the first half of 2022, operating margins were up 30bps year-on-year.

On a reported basis, Group operating profit, including exceptional and acquisition-related items, decreased to $72 million (H1 2022: $111 million). A breakdown of these items is provided below. Exceptional and acquisition-related items are not allocated to divisions and, as such, the divisional profitability referred to above is on an adjusted basis.

Foreign exchange

The Group reports in US Dollars and translational currency impacts can arise, as its global footprint generates significant revenue and expenses in a number of other currencies. In the half, this was a headwind of 5% on revenue and adjusted operating profit. These adverse translation impacts were primarily due to the previous adoption of hyperinflation accounting in Turkey which saw significant depreciation towards the end of the half. In addition year-on-year depreciation in Indian and Chinese currencies contributed to the headwind, primarily relating to depreciation during H1 2022. At latest exchange rates, we expect a c.1-2% translation headwind for revenue and adjusted operating profit for the full year (excluding any future hyperinflation impact in Turkey, which cannot be forecasted with accuracy).

Non-operating Results

Adjusted earnings per share ('EPS') decreased by 18% to 3.5 cents (H1 2022: 4.3 cents) driven by lower adjusted operating profit, which reduced from $125 million to $107 million. Interest costs remain well controlled, despite rising interest rates and increased debt, due to the funding of the acquisitions in H2 2022. Reported EPS of 1.5 cents (H1 2022: 3.4 cents) was 55% lower, after exceptional and acquisition related items.

The decrease in adjusted profit before tax was primarily due to the $17 million decrease in adjusted operating profit. This was partially offset by the net finance charge, which was $1 million lower year-on-year.

Net finance costs decreased to $14 million (pre-exceptional) (H1 2022: $15 million). The key drivers of this were:

- An increase in interest on bank borrowings due to increasing interest rates on the floating elements of debt of $3 million;
- $7 million additional interest on the $240 million acquisition facility taken out in July 2022 to fund the Texon acquisition.

Offsetting these increases, there was:

- A $6 million favourable movement on foreign exchange, largely as a result of Sterling strengthening during the period, where we hedge a number of costs and cash flows, including scheduled UK pension contributions;
- A $3 million decrease in interest on pension scheme liabilities, as a result of an IAS19 pension surplus at 31 December 2022;
- A $1 million credit due to the indexation of non-current assets in Turkey as a result of the adoption of hyperinflation accounting.

The adjusted taxation charge for the period was $26 million (H1 2022: $33 million). Excluding the impact of exceptional and acquisition-related items, the effective tax rate on pre-tax profit was 29% (H1 2022: 30%). The reported tax rate was 39% (H1 2022: 34%), after exceptional and acquisition related items.

Profit attributable to minority interests is predominantly related to Coats' operations in Vietnam and Bangladesh, in which it has controlling interests. These operate in primarily Apparel and Footwear markets exposed to the wider industry destocking cycles in the half. As a result, profit attributable to minority interests decreased to $12 million (H1 2022: $15 million).

Exceptional and Acquisition-related Items

Net exceptional and acquisition-related items before taxation were $35 million (H1 2022: $13 million). These include strategic project costs of $6 million (net of a $6 million property profit), $17 million of asset write downs and costs from the EMEA Zips disposal, and other acquisition-related items of $11 million.

Strategic project costs of $6 million relate to the strategic initiatives commenced during 2022; and primarily consist of severance costs of $7 million, legal / advisor / closure costs of $3 million, non-cash impairments of $2 million, offset by a profit of $6 million from the sale of property. These costs have supported the acceleration of project benefits, with $21 million of incremental adjusted operating profit delivered in the period (with $41 million incremental savings on the projects in total to date).

$1 million of costs have been incurred in relation to the delivery of acquisition synergies which, as mentioned above, are now delivering ahead of expectations, with $5 million of savings in the half.

The agreement to dispose of the EMEA Zips business, announced in July 2023, has resulted in the reclassification of this business as Held for Sale as at 30 June. As a result of this, and related to the expected proceeds of the transaction, asset write downs of $13 million have been incurred, in addition to $4 million of transaction related costs. We expect this transaction to complete during Q3 of this year.

Other acquisition-related items of $11 million consisted of the amortisation charges from the newly recognised intangible assets from the Texon and Rhenoflex acquisitions and the amortisation of intangible assets acquired in previous acquisitions.

Cash flow

The Group delivered $52 million (H1 2022: $30 million) of adjusted free cash flow in the half. Free cash flow is measured before annual pension deficit recovery payments, acquisitions, disposals and dividends, and excludes exceptional items.

On a last twelve months (LTM) basis, which smooths in year working capital cycles, adjusted free cash flow was $136 million, reflecting our focus on cash generation through the destocking cycle.

Adjusted free cash flow performance was strong, particularly when our normal cash flow cycle results in the majority of cash being generated in the second half of the year. We have managed net working capital closely during the industry destocking cycle, with a focus on our inventory levels while not compromising on service levels. We continued our disciplined approach to payables and receivables management through the half.

Capital expenditure was $12 million (H1 2022: $16 million), as we continued to maintain a selective approach to investing in growth opportunities, as well as in strategic projects. We anticipate 2023 full year capital expenditure to be in the $30-40 million range, as we continue to invest in support of our growth strategy, in productivity and in our environmental performance, although this level of investment is dependent on the demand recovery profile in H2.

Minority dividends of $12 million (H1 2022: $8 million) were paid, as cash was repatriated from those relevant overseas entities to the Group. Tax paid was $23 million (H1 2022: $28 million), reflective of lower profitability year on year. Interest paid was $17 million (H1 2022: $11 million) reflective or higher interest rates and the Texon acquisition debt taken out in H2 2022.

The Group delivered an overall free cash outflow of $2 million (H1 2022: $49 million outflow). This primarily reflects the adjusted free cash inflow of $52 million, offset by:

- UK deficit repair payments (including administrative expenses) of $17 million;
- Dividend payments of $28 million;
- Exceptional and acquisition related payments, mainly relating to strategic projects of $8 million.

Net debt (excluding lease liabilities) at 30 June 2023 was $399 million (31 December 2022: $394 million). Including lease liabilities, net debt was $492 million (31 December 2022: $500 million).

Pensions and other post-employment benefits
The pre-tax surplus for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS 19 financial reporting basis, was $79 million at 30 June 2023, which was $37 million higher than 31 December 2022 ($42 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 pre-tax surplus on an IAS 19 basis at 30 June 2023 of $152 million (31 December 2022: $117 million). The increase in the surplus during the period of $34 million predominantly relates to actuarial gains net of tax of $9 million. This is from an increased discount rate due to significantly higher corporate bond yields reducing liabilities, but was partially offset by asset losses due to the high degree of hedging in place in the portfolio. There were also employer contributions (excluding administrative expenses) of $14 million.

UK funding update
We continue to maintain strong and collaborative relations with the Scheme Trustees 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. This included the successful partial buy-in transaction with Aviva, representing full insurance of the benefits of c.20% of the scheme liabilities in December 2022.

The Aviva buy-in is consistent with Coats' medium term aspiration of fully insuring the Scheme and removing it from the Group balance sheet, in a cost effective manner.

When the Technical Provisions (funding) deficit for the Scheme was last formally assessed at 31 March 2021, as part of the triennial valuation cycle, it showed a £193 million deficit. As a result of this valuation, future contributions were maintained at the previously agreed levels of £22 million ($27 million) per annum (indexing) up until 2028, which was expected to result in the pay-down of the deficit slightly earlier than originally planned. The Group agreed to continue to pay the Scheme administrative expenses and levies of around $5 million per annum.

Updates since then indicate that the funding deficit has fallen significantly and is now approaching fully funded on a technical provisions basis with an estimated deficit of £25 million (being 99% of the technical deficit valuation). This significant improvement has been due to employer contributions, favourable movements in the market (increasing discount rates) and the de-risking actions that we and the Trustees have taken, for example the buy-in transaction referred to above.

As a result of this significantly improved funding position in early 2023, and reflective of the collaborative working relationship with the Trustees, we have agreed a mechanism to switch off / switch on the regular cash contributions to the scheme based on monthly estimates of the latest funding position. As such, if the scheme remains in surplus for two consecutive months cash contributions will cease entirely until any trigger on the downside (i.e. a return to deficit) has been hit. At this point, contributions on a pre-agreed basis would resume.

Since the initial agreement of this mechanism earlier this year, which set a range of 99-101% funded for the on/off triggers, we have worked with the trustees to reflect the latest views on mortality assumptions. This has reduced the funding range for the on/off triggers to 98-100%, further increasing the chances of the off trigger being reached in the near future. This has the potential to significantly reduce or eliminate the existing levels of contributions made into the Scheme, and thereby increase free cash flows generated by the Group, within the short to medium term.

Balance sheet and liquidity
Group net debt (excluding lease liabilities) at 30 June 2023 was $399 million ($492 million including lease liabilities), in line with 31 December 2022 ($394 million). This reflects disciplined cash management as noted above, offset by the acquisition-related items, ongoing pension deficit repair payments, shareholder dividends and exceptional cash costs in relation to strategic projects.

The Texon acquisition, which was completed in July 2022, was funded by a $240 million temporary acquisition facility. As previously announced, in January 2023, we refinanced this acquisition facility via the US Private Placement (USPP) market with $250 million of notes split between 5 and 7 years tenor at highly competitive interest rates (between 5.3% and 5.4%). This maintains our total committed debt facilities at $835 million with well diversified source and tenor; being $360 million revolving credit facility, $225 million of original USPP notes

(2024 and 2027 tenors), as well as the new $250 million of USPP notes (2028 and 2030 tenors). The committed headroom on our banking facilities was approximately $305 million at 30 June 2023.

At 30 June 2023, our proforma leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 1.6x and remains well within our 3x covenant limit, and towards the middle of our target leverage range of 1-2x. There was also significant headroom on our interest cover covenant at 30 June 2023 which was 9.5x, with a covenant limit of 4x. The covenants are tested twice annually in June and December and monitored throughout the year.

Going concern
On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has sufficient resources to continue in operation for a period of 12 months from the date of this report to 31 July 2024, 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 are set out 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 2023 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 the related notes 1 to 22. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 2023 is not prepared, in all material respects, in accordance with UK 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 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, 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 statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions 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 management have inappropriately adopted the going concern basis of accounting or that management 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, 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 Company'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 report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements 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.

Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
Luton
31 July 2023

Condensed consolidated financial statements

Condensed consolidated income statement
For the half year ended 30 June 2023

	Note	Half year 2023 Before exceptional and acquisition related items unaudited US$m	Half year 2023 Exceptional and acquisition related items (note 3) unaudited US$m	Half year 2023 Total unaudited US$m	Half year 2022 Before exceptional and acquisition related items unaudited US$m	Half year 2022 Exceptional and acquisition related items (note 3) unaudited US$m	Half year 2022 Total unaudited US$m	Full year 2022 Total audited US$m
Continuing operations								
Revenue		**715.1**	**-**	**715.1**	801.5	-	801.5	1,583.8
Cost of sales		**(478.6)**	**(8.7)**	**(487.3)**	(540.0)	-	(540.0)	(1,097.0)
Gross profit		**236.5**	**(8.7)**	**227.8**	261.5	-	261.5	486.8
Distribution costs		**(62.3)**	**-**	**(62.3)**	(62.5)	-	(62.5)	(129.9)
Administrative expenses		**(66.8)**	**(15.1)**	**(81.9)**	(74.3)	(13.3)	(87.6)	(177.1)
Other operating expenses		**-**	**(17.2)**	**(17.2)**	-	-	-	-
Other operating income		**-**	**5.7**	**5.7**	-	-	-	1.2
Operating profit		**107.4**	**(35.3)**	**72.1**	124.7	(13.3)	111.4	181.0
Share of profit of joint ventures		**0.7**	**-**	**0.7**	0.7	-	0.7	1.1
Finance income	**4**	**2.1**	**-**	**2.1**	0.2	-	0.2	2.6
Finance costs	**5**	**(15.9)**	**-**	**(15.9)**	(15.5)	-	(15.5)	(33.4)
Profit before taxation		**94.3**	**(35.3)**	**59.0**	110.1	(13.3)	96.8	151.3
Taxation	**6**	**(26.2)**	**3.2**	**(23.0)**	(33.1)	0.5	(32.6)	(56.4)
Profit from continuing operations		**68.1**	**(32.1)**	**36.0**	77.0	(12.8)	64.2	94.9
Loss from discontinued operations	**14**	**-**	**-**	**-**	(3.7)	(83.6)	(87.3)	(87.6)
Profit/(loss) for the period		**68.1**	**(32.1)**	**36.0**	73.3	(96.4)	(23.1)	7.3
Attributable to:								
Equity shareholders of the company		**56.5**	**(31.8)**	**24.7**	58.6	(96.3)	(37.7)	(14.7)
Non-controlling interests		**11.6**	**(0.3)**	**11.3**	14.7	(0.1)	14.6	22.0
		68.1	**(32.1)**	**36.0**	73.3	(96.4)	(23.1)	7.3
Earnings/(loss) per share (cents)	**7**							
Continuing operations:								
Basic				**1.54**			3.40	4.80
Diluted				**1.53**			3.39	4.77
Continuing and discontinued operations:								
Basic				**1.54**			(2.58)	(0.98)
Diluted				**1.53**			(2.58)	(0.97)
Adjusted earnings per share	**15 (d)**	**3.52**			4.27			8.17

Condensed consolidated statement of comprehensive income
For the half year ended 30 June 2023

	Half year 2023 unaudited US$m	Restated* Half year 2022 unaudited US$m	Restated* Full year 2022 audited US$m
Profit/(loss) for the period	**36.0**	(23.1)	7.3
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit schemes (note 16)	**8.8**	96.7	29.7
Tax relating to items that will not be reclassified	**-**	-	(1.4)
	8.8	96.7	28.3
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**0.8**	(25.9)	(27.2)
Items reclassified to profit or loss:			
Exchange differences transferred to income statement on sale of business (note 14)	**-**	15.0	15.0
Other comprehensive income and expense for the period	**9.6**	85.8	16.1
Net comprehensive income and expense for the period	**45.6**	62.7	23.4
Attributable to:			
Equity shareholders of the company	**34.9**	48.7	2.1
Non-controlling interests	**10.7**	14.0	21.3
	45.6	62.7	23.4

* Pension surplus amounts at 31 December 2022 and 30 June 2022 for the Coats UK Pension Scheme have been restated to reflect a change in measurement as further described in note 1. There is no impact on either profits or cash flows for the respective periods.

Condensed consolidated statement of financial position
At 30 June 2023

	Note	**30 June 2023 unaudited**	Restated* 30 June 2022 unaudited	Restated* 31 December 2022 audited
		US$m	US$m	US$m
Non-current assets				
Goodwill		**125.6**	24.4	124.7
Other intangible assets		**480.5**	254.4	488.7
Property, plant and equipment		**239.9**	231.7	256.3
Right-of-use assets		**82.2**	80.7	96.5
Investments in joint ventures		**13.8**	12.7	13.1
Other equity investments		**5.7**	5.9	5.9
Deferred tax assets		**22.0**	20.6	24.4
Pension surpluses	**16**	**166.3**	215.6	159.5
Trade and other receivables		**21.4**	14.6	20.2
		1,157.4	860.6	1,189.3
Current assets				
Inventories		**193.5**	245.4	211.4
Trade and other receivables		**294.1**	301.2	286.3
Other investments		**-**	0.1	-
Pension surpluses	**16**	**2.0**	5.2	2.0
Cash and cash equivalents	**11 (g)**	**128.1**	140.4	172.4
Assets of disposal group and non-current assets classified as held for sale	**13**	**11.0**	-	-
		628.7	692.3	672.1
Total assets		**1,786.1**	1,552.9	1,861.4
Current liabilities				
Trade and other payables		**(274.4)**	(328.2)	(278.4)
Income tax liabilities		**(31.4)**	(19.8)	(20.2)
Bank overdrafts and other borrowings	**11 (g)**	**(3.7)**	(4.2)	(16.7)
Lease liabilities		**(17.3)**	(17.1)	(19.0)
Retirement benefit obligations:				
- Funded schemes	**16**	**(0.2)**	(31.6)	(27.6)
- Unfunded schemes	**16**	**(6.2)**	(5.6)	(5.0)
Provisions		**(12.4)**	(10.6)	(18.2)
Liabilities of disposal group classified as held for sale	**13**	**(10.6)**	-	-
		(356.2)	(417.1)	(385.1)
Net current assets		**272.5**	275.2	287.0
Non-current liabilities				
Trade and other payables		**(4.7)**	(4.9)	(5.6)
Income tax liabilities		**(22.4)**	(19.3)	(20.7)
Deferred tax liabilities		**(59.0)**	(8.9)	(65.3)
Borrowings	**11 (g)**	**(523.7)**	(331.3)	(550.1)
Lease liabilities		**(75.6)**	(71.5)	(86.4)
Retirement benefit obligations:				
- Funded schemes	**16**	**(3.3)**	(4.2)	(3.3)
- Unfunded schemes	**16**	**(79.3)**	(84.5)	(83.4)
Provisions		**(20.3)**	(23.7)	(25.4)
		(788.3)	(548.3)	(840.2)
Total liabilities		**(1,144.5)**	(965.4)	(1,225.3)
Net assets		**641.6**	587.5	636.1
Equity				
Share capital	**8**	**99.0**	90.1	99.0
Share premium account		**111.4**	10.5	111.4
Own shares	**8**	**(0.1)**	(0.3)	(0.1)
Translation reserve		**(115.2)**	(115.4)	(116.6)
Capital reduction reserve		**59.8**	59.8	59.8
Other reserves		**246.3**	246.3	246.3
Retained profit		**207.8**	258.9	202.2
Equity shareholders' funds		**609.0**	549.9	602.0
Non-controlling interests		**32.6**	37.6	34.1
Total equity		**641.6**	587.5	636.1

* Pension surplus amounts at 31 December 2022 and 30 June 2022 for the Coats UK Pension Scheme have been restated to reflect a change in measurement as further described in note 1. There is no impact on either profits or cash flows for the respective periods.

Condensed consolidated statement of changes in equity
For the half year ended 30 June 2023

	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 US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2022 as originally reported (audited)	90.1	10.5	(0.5)	(105.7)	59.8	246.3	252.5	553.0	31.1	584.1
Restatement in respect of prior period*	-	-	-	0.6	-	-	(38.4)	(37.8)	-	(37.8)
Balance as at 1 January 2022 as restated	90.1	10.5	(0.5)	(105.1)	59.8	246.3	214.1	515.2	31.1	546.3
(Loss)/profit for the period	-	-	-	-	-	-	(37.7)	(37.7)	14.6	(23.1)
Other comprehensive income and expense for the period	-	-	-	(10.3)	-	-	96.7	86.4	(0.6)	85.8
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 by Employee Benefit Trust	-	-	(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)	(115.4)	59.8	246.3	258.9	549.9	37.6	587.5
Balance as at 1 January 2022 as originally reported (audited)	90.1	10.5	(0.5)	(105.7)	59.8	246.3	252.5	553.0	31.1	584.1
Restatement in respect of prior period*	-	-	-	0.6	-	-	(38.4)	(37.8)	-	(37.8)
Balance as at 1 January 2022 as restated	90.1	10.5	(0.5)	(105.1)	59.8	246.3	214.1	515.2	31.1	546.3
(Loss)/profit for the year	-	-	-	-	-	-	(14.7)	(14.7)	22.0	7.3
Other comprehensive income and expense for the year	-	-	-	(11.5)	-	-	28.3	16.8	(0.7)	16.1
Application of IAS 29 (note 1)	-	-	-	-	-	-	5.0	5.0	-	5.0
Dividends	-	-	-	-	-	-	(32.9)	(32.9)	(18.3)	(51.2)
Issue of ordinary shares	8.9	100.9	-	-	-	-	-	109.8	-	109.8
Purchase of own shares by Employee Benefit Trust	-	-	(2.1)	-	-	-	-	(2.1)	-	(2.1)
Movement in own shares	-	-	2.5	-	-	-	(2.5)	-	-	-
Share based payments	-	-	-	-	-	-	4.6	4.6	-	4.6
Deferred tax on share schemes	-	-	-	-	-	-	0.3	0.3	-	0.3
Balance as at 31 December 2022* (audited)	**99.0**	**111.4**	**(0.1)**	**(116.6)**	**59.8**	**246.3**	**202.2**	**602.0**	**34.1**	**636.1**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**24.7**	**24.7**	**11.3**	**36.0**
Other comprehensive income and expense for the period	**-**	**-**	**-**	**1.4**	**-**	**-**	**8.8**	**10.2**	**(0.6)**	**9.6**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(27.6)**	**(27.6)**	**(12.2)**	**(39.8)**
Purchase of own shares by Employee Benefit Trust	**-**	**-**	**(3.1)**	**-**	**-**	**-**	**-**	**(3.1)**	**-**	**(3.1)**
Movement in own shares	**-**	**-**	**3.1**	**-**	**-**	**-**	**(3.0)**	**0.1**	**-**	**0.1**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**2.7**	**2.7**	**-**	**2.7**
Balance as at 30 June 2023 (unaudited)	**99.0**	**111.4**	**(0.1)**	**(115.2)**	**59.8**	**246.3**	**207.8**	**609.0**	**32.6**	**641.6**

* Pension surplus amounts at 31 December 2022, 30 June 2022 and 31 December 2021 for the Coats UK Pension Scheme have been restated to reflect a change in measurement as further described in note 1. There is no impact on either profits or cash flows for the respective periods.

Condensed consolidated cash flow statement
For the half year ended 30 June 2023

	Note	**Half year 2023 unaudited US$m**	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Cash inflow from operating activities				
Cash generated from operations	**11 (a)**	**92.2**	58.7	176.5
Interest paid	**11 (b)**	**(16.9)**	(10.8)	(25.5)
Taxation paid	**11 (c)**	**(22.1)**	(27.7)	(54.6)
Net cash generated by operating activities		**53.2**	20.2	96.4
Cash outflow from investing activities				
Investment income	**11 (d)**	**-**	-	0.5
Net capital expenditure and financial investment	**11 (e)**	**(4.3)**	(15.4)	(31.6)
Acquisitions of businesses	**11 (f)**	**-**	-	(271.2)
Disposal of businesses	**11 (f)**	**0.9**	(13.5)	(17.0)
Net cash absorbed in investing activities		**(3.4)**	(28.9)	(319.3)
Cash (outflow)/inflow from financing activities				
Issue of ordinary shares	**8**	**-**	-	109.8
Purchase of own shares by Employee Benefit Trust		**(3.1)**	(1.7)	(2.1)
Dividends paid to equity shareholders		**(27.5)**	(21.8)	(33.0)
Dividends paid to non-controlling interests		**(12.2)**	(7.5)	(18.3)
Payment of lease liabilities		**(9.2)**	(9.3)	(18.1)
Borrowings settled on completion of acquisitions	**12**	**-**	-	(62.5)
(Repayment)/drawdown of term loan acquisition facility	**11 (g)**	**(240.0)**	-	240.0
Issue of senior notes	**11 (g)**	**248.6**	-	-
Net (decrease)/increase in other borrowings		**(37.1)**	98.5	79.2
Net cash (absorbed in)/generated from financing activities		**(80.5)**	58.2	295.0
Net (decrease)/increase in cash and cash equivalents		**(30.7)**	49.5	72.1
Net cash and cash equivalents at beginning of the period		**157.7**	90.8	90.8
Foreign exchange losses on cash and cash equivalents		**(2.6)**	(2.6)	(5.2)
Net cash and cash equivalents at end of the period	**11 (g)**	**124.4**	137.7	157.7
Reconciliation of net cash flow to movement in net debt				
Net (decrease)/increase in cash and cash equivalents		**(30.7)**	49.5	72.1
Repayment/(drawdown) of term loan acquisition facility	**11 (g)**	**240.0**	-	(240.0)
Issue of senior notes	**11 (g)**	**(248.6)**	-	-
Net decrease/(increase) in other borrowings		**37.1**	(98.5)	(79.2)
Change in net debt resulting from cash flows (Free cash flow)	**15 (e)**	**(2.2)**	(49.0)	(247.1)
Net movement in lease liabilities during the period		**10.7**	5.5	(13.0)
Movement in fair value hedges		**(0.1)**	3.6	5.2
Other non-cash movements		**(0.7)**	(0.5)	(1.0)
Foreign exchange (losses)/gains		**(0.1)**	2.8	2.2
Decrease/(increase) in net debt		**7.6**	(37.6)	(253.7)
Net debt at start of period		**(499.8)**	(246.1)	(246.1)
Net debt at end of period	**11 (g)**	**(492.2)**	(283.7)	(499.8)

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 2022, which were prepared in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006, and complied with the disclosure requirements of the Listing Rules of the United Kingdom Financial Conduct Authority ('FCA'). The condensed consolidated financial statements for the six months ended 30 June 2023 included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting as adopted for use in the United Kingdom, and the requirements of the Disclosure and Transparency Rules (DTR) of the FCA as applicable to interim financial reporting.

The condensed consolidated financial statements for the six months ended 30 June 2023 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2022 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 2022, which were prepared in accordance with United Kingdom international accounting standards in conformity with the requirements of the Companies Act 2006. The information for the year ended 31 December 2022 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). The financial information for the year ended 31 December 2022 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 2022 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 changes to operating segments (as detailed in note 2) and the following new and revised standards, amendments and improvements to existing standards that were effective as of 1 January 2023:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

The adoption of these standards and amendments has not had a material impact on the financial statements of the Group. In July 2023 the United Kingdom Endorsement Board adopted the Amendments to IAS 12 - International Rax Reform: Pillar Two Model Rules (see note 6).

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 2022.

Sensitivities regarding the discount rate and inflation assumptions used to measure the liabilities of the UK pension scheme are set out in note 16.

Prior period restatement of pension surplus

Pension surplus amounts at 31 December 2022 and 30 June 2022 for the Coats UK Pension Scheme have been restated to reflect a change in measurement as set out in note 16. There is no impact on either profits or cash flows for the respective periods.

1. Basis of preparation (continued)

Discontinued operations

On 26 May 2022 the Group completed the sale of its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The results of the Brazil and Argentina business for the six months ended 30 June 2022 and year ended 31 December 2022 were presented as a discontinued operation for those periods in the condensed consolidated income statement. Note 14 provides further details of the sale.

Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for a period of 12 months from the date of this report to 31 July 2024. 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 current trading performance as set out in the 2023 Interim Results Overview section of the Group Chief Executive's Review on pages 4 to 5, 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 2023 as well as the Group's updated Medium Term Plan for 2024;
- A severe but plausible downside scenario, assumes that the global economic environment is depressed over the assessment period, resulting in trading performance similar to that seen in the past 12 months; 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.

As more fully described in the Outlook section on page 2, the Directors expect a gradual improvement in market conditions from the second half of 2023 onwards. 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 noted an implausible decrease in trading performance would be required compared to both management's budget and historic performance. The 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 sufficient liquidity on committed borrowing facilities. The Directors consider the likelihood of the condition in the reverse stress test occurring to be remote on the basis that the Group has not experienced such a decline historically.

Liquidity headroom

As at 30 June 2023 the Group's net debt (excluding IFRS 16 leases) was $399.3 million (31 December 2022: $394.4 million). The Group's committed debt facilities total $835 million across both its Banking and US Private Placement group, with a range of maturities from December 2024 through to 2030, none of which are within the going concern period. As of 30 June 2023 the Group has around $305 million of headroom against these committed banking facilities.

In all three scenarios liquidity headroom exists 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 at 30 June 2023, with leverage of 1.6x and interest cover of 9.5x. The base case forecast indicates that banking covenants will be met throughout the assessment period. Under the severe but plausible downside scenario covenant compliance is still projected to be achieved throughout the assessment period.

1. Basis of preparation (continued)

Going concern (continued)

Conclusion

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 for the period from the date of this report to 31 July 2024.

Principal exchange rates

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

		June 2023	June 2022	December 2022
Average	Sterling	**0.81**	0.77	0.81
	Euro	**0.93**	0.92	0.95
	Chinese Renminbi	**6.93**	6.48	6.73
	Indian Rupee	**82.16**	76.22	78.59
	Turkish Lira *	**19.94**	14.86	16.57
Period end	Sterling	**0.79**	0.82	0.83
	Euro	**0.92**	0.95	0.93
	Chinese Renminbi	**7.25**	6.70	6.90
	Indian Rupee	**82.09**	78.95	82.72
	Turkish Lira	**26.05**	16.69	18.69

* Cumulative inflation rates over a three-year period exceeded 100% in Turkey in May 2022 and since then Turkey is considered as hyperinflationary. As a result, IAS 29 "Financial Reporting in Hyperinflationary Economies" was applied for the first time for the year ended 31 December 2022. Estimates were made in applying IAS 29 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 translated into the Group's US Dollar presentational currency at period end exchange rates. Monetary assets and liabilities are not restated. All non-monetary items recorded at historical rates are restated for the change in purchasing power caused by inflation from the date of initial recognition to period end balance sheet dates. The income statement of the Company's subsidiary in Turkey is adjusted for inflation during the reporting period. The translation adjustment resulting from the initial application of IAS 29 of $5.0 million was recognised in equity in the year ended 31 December 2022 (30 June 2022: $5.3 million). A net monetary gain of $1.2 million has been recognised within finance income in the six months ended 30 June 2023 on non-monetary items held in Turkish Lira (year ended 31 December 2022: $1.9 million). The inflation rate used is the consumer price index published by the Turkish Statistical Institute, TurkStat. The movement in the price index for the six months ended 30 June 2023 was 20% (year ended 31 December 2022: 64%).

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).

Following the acquisitions of Texon and Rhenoflex in July and August 2022 respectively, effective 1 January 2023 the Group's new organisational structure and reporting structure consists of three divisions: Apparel, Footwear and Performance Materials (year ended 31 December 2022: two divisions Apparel & Footwear and Performance Materials).

The Group's customers are grouped into three segments Apparel, Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles. The new Footwear Division consists of the footwear thread business and the acquired structural components businesses, Texon and Rhenoflex.

2. Segmental analysis (continued)

From 1 January 2023, this is the basis on which financial information is reported internally to the chief operating decision maker (CODM) for the purpose of allocating resources between segments and assessing their performance.

As a result of the above, the reportable segments were changed in 2023 to Apparel, Footwear and Performance Materials and comparative information for the six months ended 30 June 2022 and the year ended 31 December 2022 has been restated on a consistent basis. Previously the reportable segments for the six months ended 30 June 2022 and year ended 31 December 2022 comprised Apparel & Footwear and Performance Materials.

Segment revenue and results

Six months ended 30 June 2023	Apparel unaudited US$m	Footwear unaudited US$m	Performance Materials unaudited US$m	Total unaudited US$m
Continuing operations				
Revenue	**354.3**	**184.2**	**176.6**	**715.1**
Segment profit	**53.0**	**38.3**	**16.1**	**107.4**
Exceptional and acquisition related items (note 3)				**(35.3)**
Operating profit				**72.1**
Share of profits of joint ventures				**0.7**
Finance income				**2.1**
Finance costs				**(15.9)**
Profit before taxation from continuing operations				**59.0**

Segment revenue and results

Six months ended 30 June 2022 (restated)	Apparel unaudited US$m	Footwear unaudited US$m	Performance Materials unaudited US$m	Total unaudited US$m
Continuing operations				
Revenue	471.9	115.2	214.4	801.5
Segment profit	74.2	32.8	17.7	124.7
Exceptional and acquisition related items (note 3)				(13.3)
Operating profit				111.4
Share of profits of joint ventures				0.7
Finance income				0.2
Finance costs				(15.5)
Profit before taxation from continuing operations				96.8

2. Segmental analysis (continued)

Segment revenue and results

Year ended 31 December 2022 (restated)	Apparel audited US$m	Footwear audited US$m	Performance Materials audited US$m	Total audited US$m
Continuing operations				
Revenue	863.7	299.7	420.4	1,583.8
Segment profit	132.6	68.2	34.1	234.9
Exceptional and acquisition related items (note 3)				(53.9)
Operating profit				181.0
Share of profits of joint ventures				1.1
Finance income				2.6
Finance costs				(33.4)
Profit before taxation from continuing operations				151.3

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Cost of sales and other operating costs not directly attributable to a segment are allocated to segments on an aggregated basis. Exceptional and acquisition related items are not allocated to segments to align to the reporting provided to the chief operating decision maker. 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.

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.

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Continuing operations			
Primary geographic markets			
Asia	**397.6**	475.4	911.8
Americas	**132.7**	171.9	340.6
EMEA	**184.8**	154.2	331.4
Total	**715.1**	801.5	1,583.8
Continuing operations			
Apparel	**354.3**	471.9	863.7
Footwear	**184.2**	115.2	299.7
Performance Materials	**176.6**	214.4	420.4
Total	**715.1**	801.5	1,583.8
Timing of revenue recognition			
Goods transferred at a point in time	**710.8**	795.9	1,573.6
Software solutions services transferred over time	**4.3**	5.6	10.2
Total	**715.1**	801.5	1,583.8

The software solutions business is included in the Apparel segment. The Group had no revenue from a single customer which accounts for more than 10% of the Group's revenue.

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 valuable additional information for users of the financial statements in understanding the Group's performance and reflects how the performance of the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 15.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of businesses, profit or loss on disposal of property, plant and equipment, non-actuarial gains or losses arising from significant one off changes to 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.

Total exceptional and acquisition related items charged to operating profit for the six months ended 30 June 2023 was $35.3 million (six months ended 30 June 2022: $13.3 million; year ended 31 December 2022: $55.0 million).

This comprises exceptional items for the six months ended 30 June 2023 of $24.4 million (six months ended 30 June 2022: $9.8 million; year ended 31 December 2022: $31.2 million) and acquisition related items for the six months ended 30 June 2023 of $10.9 million (six months ended 30 June 2022: $3.5 million; year ended 31 December 2022: $23.8 million).

Taxation in respect of exceptional and acquisition related items is set out in note 6.

Exceptional items

Exceptional items charged/(credited) to operating profit are set out below:

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Exceptional items:			
Strategic project costs:			
- Cost of sales	**8.7**	-	9.9
- Distribution costs	**-**	-	3.8
- Administrative costs	**3.1**	9.8	18.7
	11.8	9.8	32.4
Profit on sale of property and businesses:			
- Other operating income	**(5.7)**	-	(1.2)
	6.1	9.8	31.2
Costs from integration of Footwear acquisitions:			
- Administrative costs	**1.1**	-	-
Divestment of European Zips – impairment loss:			
- *Other operating expenses*	**17.2**	-	-
Total exceptional items charged to operating profit from continuing operations	**24.4**	9.8	31.2

3. Exceptional and acquisition related items (continued)

Strategic project costs

At the end of 2021 the Group commenced 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.

During the six months ended 30 June 2023 the build and fit-out of a second new plant, at Toluca in Mexico was completed. The project to transform the Group's Asian operations has a particular focus on China and India and is designed to optimise the footprint and efficiency in the Group's long-established Indian operations, while bringing a greater focus to the increasingly important domestic market in China. Work in both countries commenced during the six months ended 30 June 2023. In India, there have been headcount reductions, with office and warehouse space being consolidated. In China, there have also been headcount reductions with lower-margin zip production in the process of being outsourced to a third party supplier.

During the year ended 31 December 2022 a new facility was established in Huamantla, Mexico, manufacturing processes were transferred from the US and a legacy facility in the US was exited. In EMEA thread operations in Romania were consolidated in a purpose-built logistics facility and warehouses in Poland and Hungary were exited. Corporate and overhead activities in the UK and US were moved closer to the Group's operations and customers.

As a result of these activities, exceptional restructuring costs totalling $11.8 million were incurred during the six months ended 30 June 2023 (six months ended 30 June 2022: $9.8 million; year ended 31 December 2022: $32.4 million) which included:

- severance and related employee costs of $6.9 million (six months ended 30 June 2022: $7.3 million; year ended 31 December 2022: $22.5 million);
- non-cash impairment charges of tangible fixed assets, right-of-use assets and inventories of $1.5 million (six months ended 30 June 2022: $2.1 million; year ended 31 December 2022: $4.7 million); and
- legal, advisers, closure and related costs of $3.4 million (six months ended 30 June 2022: $0.4 million; year ended 31 December 2022: $5.2 million).

Profit on sale of property and businesses

During the six months ended 30 June 2023 profit from the sale of land and buildings as part of the above strategic project was $5.6 million (six months ended 30 June 2022: $nil; year ended 31 December 2022: $1.2 million).

In addition the Group completed the sale of its businesses in Mauritius and Madagascar in January 2023 for a cash consideration of $1.5 million resulting in a profit on disposal of $0.1 million. The net assets disposed totalled $1.4 million comprising property, plant and equipment of $0.1 million, inventories of $0.6 million, debtors of $0.6 million, cash of $0.6 million and current liabilities of $0.5 million.

Costs from integration of Footwear acquisitions

During the six months ended 30 June 2023 severance costs of $1.1 million were incurred from the integration of the Texon and Rhenoflex businesses, which were acquired in July 2022 and August 2022 respectively. This principally relates to the elimination of duplicated roles and from the consolidation of back-office activities.

Divestment of European Zips – impairment loss

On 30 June 2023 the Group entered into an agreement to sell its European Zips business. The sale is conditional on a limited number of conditions usual for this type of transaction and is expected to complete in the third quarter of 2023. The European Zips business is included in the Apparel segment. An exit from the European Zips business is in line with Coats' strategic initiative to optimise the Group's portfolio and footprint, and improve the overall cost base efficiency.

The assets and liabilities at 30 June 2023 of the European Zips business have been reclassified as a disposal group held for sale. As at the date of reclassification of the European Zips disposal group to held for sale on 30 June 2023, the fair value less cost to sell was less than the carrying amounts. The impairment loss arising on measurement to fair value less costs to sell was $17.2 million and includes expected transaction and completion costs (see note 13 for further details).

3. Exceptional and acquisition related items (continued)

Acquisition related items

Acquisition related items are set out below:

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Acquisition related items:			
Administrative expenses:			
Acquisition transaction costs	**-**	1.9	11.9
Amortisation of acquired intangible assets	**10.9**	1.6	10.8
	10.9	3.5	22.7
Finance costs:			
Acquisition transaction costs	**-**	-	1.1
Total acquisition related items charged to profit before taxation	**10.9**	3.5	23.8

Acquisition transaction costs in the year ended 31 December 2022 charged to administrative expenses include transaction costs relating to the acquisitions of Texon and Rhenoflex (see note 12).

Acquisition transaction costs charged to finance costs during the year ended 31 December 2022 of $1.1 million related to the $240.0 million term loan acquisition facility used to finance the acquisition of Texon (see note 12).

Acquisition transaction costs and amortisation of intangible assets acquired through business combinations are not included within adjusted operating profit and adjusted earnings per share. These costs are acquisition related and management consider them to be capital in nature and are not included in profitability measures by which management assess the 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 trading performance of the business.

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.

4. Finance income

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Income from investments	**-**	-	0.1
Net monetary gain arising from hyperinflation accounting (see note 1)	**1.2**	-	1.9
Other interest receivable and similar income	**0.9**	0.2	0.6
	2.1	0.2	2.6

5. Finance costs

	Half year 2023 unaudited	Half year 2022 unaudited	Full year 2022 audited
	US$m	US$m	US$m
Interest on bank and other borrowings	**15.5**	5.7	18.9
Interest expense on lease liabilities	**2.9**	2.5	4.9
Net interest on pension scheme assets and liabilities	**(2.7)**	0.3	0.5
Other finance costs including unrealised gains and losses on foreign exchange contracts	**0.2**	7.0	9.1
	15.9	15.5	33.4

Other finance costs for the year ended 31 December 2022 included acquisition related transaction costs of $1.1 million incurred in connection with the $240.0 million term loan acquisition facility used to finance the acquisition of Texon (six months ended 30 June 2023 and 30 June 2022: $nil) (see note 3).

6. Taxation

The taxation charge for the six months ended 30 June 2023 and 30 June 2022 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 2023 was $23.0 million (six months ended 30 June 2022: $32.6 million; year ended 31 December 2022: $56.4 million).

For the six months ended 30 June 2023 the tax credit in respect of exceptional and acquisition related items was $3.2 million (six months ended 30 June 2022: $0.5 million; year ended 31 December 2022: $3.7 million) which compromised the following amounts:

- Exceptional tax credits of $1.2 million for the six months ended 30 June 2023 (six months ended 30 June 2022: $0.5 million; year ended 31 December 2022: $2.2 million) in connection with the strategic project set out in note 3;
- An exceptional tax charge of $0.2 million for the six month ended 30 June 2023 (six months ended 30 June 2022: $nil; year ended 31 December 2022: $0.2 million) in connection with the sale of land and buildings (see note 3); and
- An exceptional tax credit for the six months ended 30 June 2023 of $2.2 million relating to the unwinding of tax liabilities on the amortisation of intangible assets acquired as a result of the acquisitions of Texon and Rhenoflex (refer to note 12) (six month ended 30 June 2022 $nil; year ended 31 December 2022: $1.7 million).

A deferred tax liability is recognised in respect of the Coats brand intangible asset. An equivalent deferred tax asset is also recognised in respect of tax attributes in the same jurisdiction, which would be utilised against the taxable profit arising on the reversal of the taxable temporary difference. As a result there is no gross amounts of deferred tax liabilities or deferred tax assets included in the condensed statement of financial position in respect of this. Determining the time period over which the taxable temporary difference in respect of the brand will reverse is judgmental, but for the purpose of deferred tax asset recognition the Group takes the view that any future impairments or amortisation of the brand will take place over an extended period of time.

International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12)

On 20 December 2021, the Organisation for Economic Co-operation and Development (“OECD”) published its proposals in relation to Global Anti-Base Erosion Rules, which provide for an internationally co-ordinated system of taxation to ensure that large multinational groups pay a minimum level of corporate income tax in countries where they operate. On March 2023, the UK government introduced legislation in Finance (No. 2) Bill 2022-23 to implement Pillar 2 of the OECD/G20 inclusive framework which was substantively enacted on 20 June 2023. The new rules are expected to take effect from 2024 onwards.

Coats has applied the International Accounting Standards Board (“IASBs”) amendments to IAS 12 Income Taxes in respect of Pillar Two which gives companies a temporary mandatory exception from accounting for deferred taxes arising from the OECD Pillar Two model rules. There remains uncertainty with respect to the detailed operation of the rules and their impact. Further details and guidance are due in the course of 2023. Coats will continue to monitor the development and future implementation of these rules.

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.

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 was the end of the contingency period.

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Profit from continuing operations attributable to equity shareholders	**24.7**	49.6	72.9
Profit/(loss) from continuing and discontinued operations attributable to equity shareholders	**24.7**	(37.7)	(14.7)

	Half year 2023 unaudited Number of shares m	Half year 2022 unaudited Number of shares m	Full year 2022 audited Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,605.2**	1,459.6	1,516.0
Adjustment for share options and LTIP awards	**10.5**	4.1	9.3
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,615.7**	1,463.7	1,525.3

	Half year 2023 unaudited cents	Half year 2022 unaudited cents	Full year 2022 audited cents
Continuing operations:			
Basic earnings per ordinary share	**1.54**	3.40	4.80
Diluted earnings per ordinary share	**1.53**	3.39	4.77
Continuing and discontinued operations:			
Basic earnings/(loss) per ordinary share	**1.54**	(2.58)	(0.98)
Diluted earnings/(loss) per ordinary share	**1.53**	(2.58)	(0.97)

8. Issued share capital

At 30 June 2023 the share capital of the Company comprised 1,597,810,385 Ordinary Shares of 5p each (31 December 2022: 1,597,810,385; 30 June 2022: 1,452,570,385).

During the six months ended 30 June 2023 and 30 June 2022 the Company did not issue any Ordinary Shares. During the year ended 31 December 2022 the Company issued 145,240,000 Ordinary Shares of 5p each to fund the acquisition of Rhenoflex GmbH in August 2022. The par value of the shares issued was $8.9 million and the proceeds raised net of costs were $109.8 million.

The own shares reserve of $0.1 million at 30 June 2023 (31 December 2022: $0.1 million; 30 June 2022: $0.3 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 2023 was 150,000 (31 December 2022: 805,501; 30 June 2022: 1,023,230).

9. Dividends

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
2022 final dividend paid – 1.73 cents per share	**27.6**	-	-
2022 interim dividend paid – 0.70 cents per share	**-**	-	11.1
2021 final dividend paid – 1.50 cents per share	**-**	21.8	21.8
	27.6	21.8	32.9

The directors have declared an ordinary interim dividend per share of 0.81 cents (30 June 2022: 0.70 cents) to be paid on 15 November 2023 to shareholders on the register on 20 October 2023. 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.

10. US environmental matters (continued)

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.

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 allocation process concluded in December 2020. The EPA-appointed allocator determined that CC is in the lowest tier (Tier 5) of allocation parties, and is responsible for only a de micromis share of 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 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 2023, the remaining provision, taking into account insurance reimbursement, was $8.5 million (31 December 2022: $9.2 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.

In 2022, CC and other parties entered into a settlement with EPA in which the settling parties agreed to pay $150 million toward remediation of the full 17-mile LPR in exchange for a release for those matters addressed in the settlement. CC's share of the cash-out settlement is consistent with a de micromis share of total remedial costs for the full 17-mile LPR. EPA has indicated it will seek the balance of LPR remedial costs from OCC and a small number of other parties that EPA has determined were not eligible to participate in a cash-out settlement. These other parties (and not the cash-out parties) would be responsible for remedial costs over-runs. The settlement does not address claims for natural resource damages by federal natural resource trustees. The Group believes that CC's share, if any, of such costs would be de micromis.

In late 2022, the cash-out settlement for the full 17-mile LPR was lodged with the court by the Department of Justice (DOJ) on behalf of EPA. Court approval is necessary for the settlement to go into effect, and OCC has indicated that it will oppose such approval. The Group expects that DOJ and EPA will assert that the settlement is just and reasonable and that it should be approved by the court, and courts have generally deferred to EPA's judgment on such matters. However, it is nonetheless possible that the court may not approve the settlement. It is also possible that the court may approve the settlement but permit OCC's litigation against the settling parties to continue in whole or in part. Because of these continued uncertainties, the Group is maintaining its current provision for the LPR for the present time.

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 the EPA-appointed allocator correctly concluded that it has a de micromis share of the total remediation costs, and that OCC and other parties will be responsible for a significant share of the ultimate costs of remediation. As this matter evolves, the provision may be reduced if the settlement is approved by the court and if the court bars further litigation against CC and other settling parties.

10. US environmental matters (continued)

It is nonetheless still possible that additional provisions could be recorded and that such provisions could increase materially based on further decisions by 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.

11. Notes to the condensed consolidated cash flow statement

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

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Operating profit[1]	**72.1**	111.4	181.0
Depreciation of owned property, plant and equipment	**14.0**	13.0	26.5
Depreciation of right-of-use assets	**10.0**	9.9	19.4
Amortisation of intangible assets	**11.8**	2.4	12.6
Impairment loss on divestment of European Zips business (note 13)	**17.2**	-	-
Profit on disposal of property, plant and equipment	**(5.9)**	-	(1.1)
Decrease/(increase) in inventories	**2.4**	(25.9)	43.6
(Increase)/decrease in debtors	**(17.6)**	(37.2)	10.4
Increase/(decrease) in creditors	**8.2**	7.2	(76.2)
Provision and pension movements	**(22.7)**	(23.8)	(41.6)
Foreign exchange and other non-cash movements	**3.2**	9.7	9.9
Discontinued operations	**(0.5)**	(8.0)	(8.0)
Cash generated from operations	**92.2**	58.7	176.5

[1] Refer to the condensed consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

b) Interest paid

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Interest paid	**(16.9)**	(10.1)	(24.8)
Discontinued operations	**-**	(0.7)	(0.7)
	(16.9)	(10.8)	(25.5)

c) Taxation paid

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Overseas tax paid	**(22.1)**	(27.7)	(54.6)

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

d) Investment income

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Dividends received from joint ventures	**-**	-	0.5

e) Capital expenditure and financial investment

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Purchase of property, plant and equipment and intangible assets	**(11.9)**	(15.3)	(33.8)
Sale/(purchase) of other equity investments	**0.3**	-	(0.1)
Disposal of property, plant and equipment	**7.3**	0.4	2.8
Discontinued operations	**-**	(0.5)	(0.5)
	(4.3)	(15.4)	(31.6)

f) Acquisitions and disposals of businesses

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Acquisition of businesses (note 12)	**-**	-	(271.2)
Disposal of businesses	**0.9**	(13.5)	(17.0)
	0.9	(13.5)	(288.2)

g) Net debt

A summary of net debt is set out below:

	30 June 2023 unaudited US$m	30 June 2022 unaudited US$m	31 December 2022 audited US$m
Cash and cash equivalents	**128.1**	140.4	172.4
Bank overdrafts	**(3.7)**	(2.7)	(14.7)
Net cash and cash equivalents	**124.4**	137.7	157.7
Other borrowings	**(523.7)**	(332.8)	(552.1)
Net debt excluding lease liabilities	**(399.3)**	(195.1)	(394.4)
Lease liabilities	**(92.9)**	(88.6)	(105.4)
Total net debt	**(492.2)**	(283.7)	(499.8)

In February 2023, the Group completed the refinancing of the Texon acquisition term loan of $240 million, which had been fully drawn down in July 2022, via the US Private Placement (USPP) market with $250 million of notes. $150 million 5.26% Series A Senior Notes are due on 16 February 2028 and $100 million 5.37% Series B Senior Notes are due on 16 February 2030. The cash inflow from the USPP issuance was $248.6 million, net of fees.

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 2023 for covenant purposes was $406.2 million (30 June 2022: $199.6 million; 31 December 2022: $399.9 million).

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$m	Total financing activity liabilities US$m	Bank overdrafts US$m	Cash at bank and in hand US$m	Net debt US$m
At 1 January 2022 (audited)	(227.5)	(10.4)	(99.0)	(336.9)	(16.4)	107.2	(246.1)
Financing cash flows	-	(98.5)	9.3	(89.2)	-	-	(89.2)
Other cash flows	-	-	2.5	2.5	13.7	35.8	52.0
Non-cash movements	3.6	(0.5)	(6.3)	(3.2)	-	-	(3.2)
Foreign exchange	-	0.5	4.9	5.4	-	(2.6)	2.8
At 30 June 2022 (unaudited)	(223.9)	(108.9)	(88.6)	(421.4)	(2.7)	140.4	(283.7)
At 1 January 2022 (audited)	(227.5)	(10.4)	(99.0)	(336.9)	(16.4)	107.2	(246.1)
Financing cash flows	-	(256.7)	18.1	(238.6)	-	-	(238.6)
Other cash flows	-	-	4.9	4.9	1.7	70.4	77.0
Acquisition of subsidiaries (note 12)	-	(62.5)	-	(62.5)	-	-	(62.5)
Non-cash movements	5.2	(1.0)	(36.0)	(31.8)	-	-	(31.8)
Foreign exchange	-	0.8	6.6	7.4	-	(5.2)	2.2
At 31 December 2022 (audited)	**(222.3)**	**(329.8)**	**(105.4)**	**(657.5)**	**(14.7)**	**172.4**	**(499.8)**
Financing cash flows	**(248.6)**	**277.1**	**9.2**	**37.7**	**-**	**-**	**37.7**
Other cash flows	**-**	**-**	**2.9**	**2.9**	**11.0**	**(41.7)**	**(27.8)**
Non-cash movements	**(0.1)**	**(0.7)**	**(1.4)**	**(2.2)**	**-**	**-**	**(2.2)**
Foreign exchange	**-**	**0.7**	**1.8**	**2.5**	**-**	**(2.6)**	**(0.1)**
At 30 June 2023 (unaudited)	**(471.0)**	**(52.7)**	**(92.9)**	**(616.6)**	**(3.7)**	**128.1**	**(492.2)**

The non-cash movement during the six months ended 30 June 2023 of $0.1 million (six months ended 30 June 2022: $3.6 million; year ended 31 December 2022: $5.2 million) within Series A and Series B Senior Notes represents the movement in the fair value adjustment to the nominal amount outstanding and relates to interest rate swaps which are accounted for as fair value hedges.

12. Acquisitions

The Group completed two acquisitions during the year ended 31 December 2022 obtaining control of both Texon and Rhenoflex, leading manufacturers of structural footwear components supplying the world's leading footwear brands. Both have operations in Asia and Europe and are complementary additions to Coats' existing footwear business with opportunities to leverage existing footprints and combine expertise in the attractive athleisure footwear market.

- On 20 July 2022, the Group acquired the entire share capital of Torque Group International Fortune Limited ('Texon') for $211.0 million. On completion, the Group immediately settled all Texon's external bank debt of $24.4 million such that the total cash outflow was $235.4 million.

- On 23 August 2022, the Group also purchased the entire share capital of Rhenoflex GmbH ('Rhenoflex') for $81.5 million. On completion, the Group immediately settled all of Rhenoflex's external bank debt of $38.1 million such that the total cash outflow was $119.6 million.

The Texon transaction was funded through a $240.0 million term loan acquisition facility, which was refinanced in February 2023 (see note 11), and the Rhenoflex transaction was predominately financed through an equity raise of $109.8 million net of costs.

12. Acquisitions (continued)

These acquisitions were accounted for as business combinations using the acquisition method in accordance with IFRS 3 'Business Combinations.' For each acquisition, a provisional assessment of the fair values of identified assets acquired and liabilities assumed had been undertaken during the year ended 31 December 2022 with assistance provided by external valuation specialists.

The assessment of the fair value of assets and liabilities acquired was completed during the six months ended 30 June 2023 within twelve months of the acquisition dates. No changes were necessary during the six months ended 30 June 2023 to the provisional fair values recognised in the year ended 31 December 2022.

Goodwill and intangible assets acquired for Texon and Rhenoflex totalled $338.7 million.

The purchase consideration was paid in cash with the amounts included in the statement of consolidated cash flows for the year ended 31 December 2022 as follows:

	Texon US$m	**Rhenoflex US$m**	**Total US$m**
Purchase consideration paid to previous owners	211.0	81.5	292.5
Cash and cash equivalents acquired	(16.8)	(4.5)	(21.3)
Acquisition of businesses – investing cash flows	**194.2**	**77.0**	**271.2**
External bank borrowings settled on completion – financing cash flows	24.4	38.1	62.5
Total cash out flow on respective acquisition dates	**218.6**	**115.1**	**333.7**

The repayment of the external bank borrowings of Texon and Rhenoflex on the respective completion dates of the acquisitions was presented as financing cash flows.

The total cash outflow for the acquisitions of Texon and Rhenoflex in the year ended 31 December 2022 was $346.0 million (see note 15(e)) comprising the total cash outflow on the respective acquisition dates of $333.7 million plus transaction costs paid of $12.3 million.

13. Assets and liabilities of disposal group classified as held for sale

Divestment of European Zips

On 30 June 2023 the Group entered into an agreement to sell its European Zips business to Aequita, a German family office, for an expected consideration of approximately $1 million after the deduction of typical debt-like items. The consideration is payable in cash on completion subject to customary adjustments. The sale is conditional on a limited number of conditions usual for this type of transaction and is expected to complete in the third quarter of 2023. The European Zips business is included in the Apparel segment.

An exit from the European Zips is in line with Coats' strategic initiatives, announced in March 2022, to optimise the Group's portfolio and footprint, and improve the overall cost base efficiency.

The assets and liabilities at 30 June 2023 of the European Zips business have been reclassified as a disposal group held for sale. Assets and liabilities classified as held for sale consist of the following:

	30 June 2023 unaudited US$m	30 June 2022 unaudited US$m	31 December 2022 audited US$m
Assets of the disposal group classified as held for sale	**7.5**	-	-
Other non-current assets classified as held for sale[1]	**3.5**	-	-
Total assets of the disposal group and non-current assets classified as held for sale	**11.0**	-	-
Liabilities of the disposal group classified as held for sale	**(10.6)**	-	-
Total net assets classified as held for sale	**0.4**	-	-

[1] The other non-current assets held for sale of $3.5 million are property, plant and equipment that do not relate to European Zips.

13. Assets and liabilities of disposal group classified as held for sale (continued)

Divestment of European Zips

The major classes of assets and liabilities held for sale relating to European Zips at 30 June 2023 are as follows:

	30 June 2023 US$m
Property, plant and equipment	-
Right-of-use assets	-
Inventories	-
Trade and other receivables	7.4
Cash and cash equivalents	0.1
Total assets of the disposal group classified as held for sale	**7.5**
Trade and other payables	10.6
Total liabilities of the disposal group classified as held for sale	**10.6**

As at the date of reclassification of the European Zips disposal group to held for sale on 30 June 2023, the fair value less cost to sell was less than the carrying amounts. The impairment loss arising on measurement to fair value less costs to sell was $17.2 million which has been included as an exceptional charge in other operating expenses within continuing operations in the income statement for the six months ended 30 June 2023 and includes expected transaction and completion costs.

The impairment loss of $17.2 million arising on measurement to fair value less costs to sell has been applied to reduce the carrying amounts of property plant and equipment by $2.3 million to $nil, right-of-use assets by $0.9 million to $nil, inventories by $9.3 million to $nil and trade and other receivables by $0.7 million to $7.4 million with additional liabilities and costs of $4.0 million being recognised.

The loss on disposal that will be recognised as an exceptional charge on completion of the transaction will also include historical foreign exchange gains and losses previously recognised in equity which at 30 June 2023 amounted to a cumulative loss of $6.4 million.

14. 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 2023 (31 December 2022: $nil; 30 June 2022: $nil).

14. Discontinued operations (continued)

a) Discontinued operations

The results of the discontinued operations are presented below:

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Revenue	**-**	26.3	26.3
Cost of sales	**-**	(22.6)	(22.6)
Gross profit	**-**	3.7	3.7
Distribution costs	**-**	(3.8)	(3.8)
Administrative expenses	**-**	(3.3)	(3.3)
Operating loss	**-**	(3.4)	(3.4)
Finance costs	**-**	(0.3)	(0.3)
Loss before taxation	**-**	(3.7)	(3.7)
Taxation	**-**	-	-
Loss from discontinued operations for the period	**-**	(3.7)	(3.7)
Loss on disposal (note 14(b))	**-**	(68.6)	(68.9)
Exchange loss transferred to income statement on disposal	**-**	(15.0)	(15.0)
Total loss from discontinued operations	**-**	(87.3)	(87.6)

Revenue reported above for the six months ended 30 June 2022 and year ended 31 December 2022 included inter-company sales of $1.6 million. External revenue of the Brazil and Argentina business for the six months ended 30 June 2022 and year ended 31 December 2022 was $24.7 million.

Exceptional items – discontinued operations

Exceptional items charged to loss from discontinued operations are set out below:

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Loss on disposal (note 14(b))	**-**	(68.6)	(68.9)
Exchange loss transferred to income statement on disposal	**-**	(15.0)	(15.0)
Total exceptional items – discontinued operations	**-**	(83.6)	(83.9)

Loss per ordinary share from discontinued operations

The loss per ordinary share from discontinued operations is as follows:

	Half year 2023 unaudited cents	Half year 2022 unaudited cents	Full year 2022 audited cents
Loss per ordinary share from discontinued operations:			
Loss per ordinary share	**-**	**(5.98)**	(5.78)
Diluted loss per ordinary share	**-**	**(5.97)**	(5.74)

14. Discontinued operations (continued)

a) Discontinued operations (continued)

Cash flows from discontinued operations

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

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Net cash outflow from operating activities	**(0.5)**	(8.7)	(8.7)
Net cash outflow from investing activities	**-**	(0.5)	(0.5)
Net cash flows from discontinued operations	**(0.5)**	(9.2)	(9.2)

b) Loss on disposal

Net assets disposed in May 2022 relating to the Brazil and Argentina business amounted to $49.4 million. The exceptional loss on disposal included in the results of discontinued operations for the year ended 31 December 2022 was $68.9 million.

The consideration paid on the date of disposal in May 2022 was $15.0 million and net of cash and cash equivalents and bank overdrafts disposed was $13.2 million. Disposal costs of $3.8 million were paid in the year ended 31 December 2022 (six months ended 30 June 2022: $0.3 million) and as a result the cash outflow in the year ended 31 December 2022 on the sale of the Brazil and Argentina business was $17.0 million (six months ended 30 June 2022: $13.5 million).

15. 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 2022.

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

15. 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:

- removing from the year of acquisition, their revenue and operating profit; and
- 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.

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 profitability progression of the Group.

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

Revenue	**Half year 2023 unaudited US$m**	Half year 2022 unaudited US$m	% Decline
Revenue from continuing operations	**715.1**	801.5	(11%)
Constant currency adjustment	**-**	(39.2)	
Revenue on a CER basis	**715.1**	762.3	(6%)
Revenue from acquisitions[1]	**(97.4)**	-	
Organic revenue on a CER basis	**617.7**	762.3	(19%)

Operating profit	**Half year 2023 unaudited US$m**	Half year 2022 unaudited US$m	% Decline
Operating profit from continuing operations[2]	**72.1**	111.4	(35%)
Exceptional and acquisition related items (note 3)	**35.3**	13.3	
Adjusted operating profit from continuing operations	**107.4**	124.7	(14%)
Constant currency adjustment	**-**	(6.7)	
Adjusted operating profit on a CER basis	**107.4**	118.0	(9%)
Operating profit from acquisitions[1]	**(13.8)**	-	
Organic adjusted operating profit on a CER basis	**93.6**	118.0	(21%)

[1] Revenue and operating profit from acquisitions of $97.4 million and $13.8 million respectively relates to Texon and Rhenoflex for the six months ended 30 June 2023. Texon was acquired in July 2022 and Rhenoflex was acquired in August 2022.

[2] Refer to the condensed consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

15. Alternative performance measures (continued)

b) Adjusted EBITDA

Adjusted EBITDA is presented as an alternative performance measure to show the 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:

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Profit before taxation from continuing operations	**59.0**	96.8	151.3
Share of profit of joint ventures	**(0.7)**	(0.7)	(1.1)
Finance income (note 4)	**(2.1)**	(0.2)	(2.6)
Finance costs (note 5)	**15.9**	15.5	33.4
Operating profit from continuing operations[1]	**72.1**	111.4	181.0
Exceptional and acquisition related items (note 3)	**35.3**	13.3	53.9
Adjusted operating profit from continuing operations	**107.4**	124.7	234.9
Depreciation of owned property, plant and equipment	**14.0**	13.0	26.5
Amortisation of intangible assets	**0.9**	0.8	1.8
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**122.3**	138.5	263.2
Depreciation of right-of-use assets	**10.0**	9.9	19.4
Adjusted EBITDA	**132.3**	148.4	282.6

[1] Refer to the condensed consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

Adjusted EBITDA on a last twelve months basis to 30 June 2023 was $266.5 million (30 June 2022: $273.2 million).

Adjusted EBITDA on a last twelve months basis to 30 June 2023 of $266.5 million is the adjusted EBITDA for the six months ended 30 June 2023 of $132.3 million plus the adjusted EBITDA for the year ended 31 December 2022 of $282.6 million less the adjusted EBITDA for the six months ended 30 June 2022 of $148.4 million.

Net debt including lease liabilities under IFRS 16 was $492.2 million at 30 June 2023 (31 December 2022: $499.8 million; 30 June 2022: $283.7 million). This gives a leverage ratio of net debt including lease liabilities to Adjusted EBITDA at 30 June 2023 of 1.8 (31 December 2022: 1.8; 30 June 2022: 1.0).

On a pre-IFRS 16 basis adjusted EBITDA on a last twelve months basis to 30 June 2023 was $247.0 million (30 June 2022: $253.6 million).

Net debt excluding lease liabilities under IFRS 16 was $399.3 million at 30 June 2023 (31 December 2022: $394.4 million; 30 June 2022: $195.1 million). This gives a leverage ratio on a pre-IFRS 16 basis at 30 June 2023 of 1.6 (31 December 2022: 1.5; 30 June 2022: 0.8).

The Group's proforma leverage on a pre-IFRS 16 basis at 30 June 2023 is 1.6 (31 December 2022: 1.4) after adjusting EBITDA to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the twelve month period.

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

15. Alternative performance measures (continued)

c) Adjusted effective tax rate

The adjusted 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 adjusted 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 adjusted effective tax rate 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 effective tax rate.

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Profit before taxation from continuing operations	**59.0**	96.8	151.3
Exceptional and acquisition related items (note 3)	**35.3**	13.3	55.0
Net interest on pension scheme assets and liabilities (note 5)	**(2.7)**	0.3	0.5
Adjusted profit before taxation from continuing operations	**91.6**	110.4	206.8
Taxation charge from continuing operations	**23.0**	32.6	56.4
Tax credit in respect of exceptional and acquisition related items	**3.2**	0.5	3.7
Tax credit in respect of net interest on pension scheme assets and liabilities	**0.3**	0.3	0.5
Adjusted taxation charge from continuing operations	**26.5**	33.4	60.6
Adjusted effective tax rate	**29%**	30%	29%

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 progression of the benefits generated for shareholders.

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Profit from continuing operations	**36.0**	64.2	94.9
Non-controlling interests	**(11.3)**	(14.6)	(22.0)
Profit from continuing operations attributable to equity shareholders	**24.7**	49.6	72.9
Exceptional and acquisition related items net of non-controlling interests (note 3)	**35.0**	13.2	54.7
Tax credit in respect of exceptional and acquisition related items	**(3.2)**	(0.5)	(3.7)
Adjusted profit from continuing operations	**56.5**	62.3	123.9
Weighted average number of Ordinary Shares	**1,605,222,055**	1,459,603,959	1,515,999,205
Adjusted earnings per share	**3.52**	4.27	8.17

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).

15. 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 non-controlling 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 cash generation that is available to service shareholder dividends, pension obligations and acquisitions.

	Half year 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Change in net debt resulting from cash flows (free cash flow)	**(2.2)**	(49.0)	(247.1)
Acquisition of businesses (note 12)	**-**	-	346.0
Disposal of businesses	**(0.9)**	13.5	17.0
Net cash outflow from discontinued operations	**0.5**	9.2	9.2
Payments to UK pension scheme	**16.7**	22.8	42.7
Net cash flows in respect of exceptional and acquisition related items	**7.7**	10.1	22.5
Issue of ordinary shares (note 8)	**-**	-	(109.8)
Purchase of own shares by Employee Benefit Trust	**3.1**	1.8	2.1
Dividends paid to equity shareholders	**27.5**	21.8	33.0
Tax inflow in respect of adjusted cash flow items	**-**	-	(1.4)
Adjusted free cash flow	**52.4**	30.2	114.2

15. 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 adjusted for full year impact of acquisitions divided by period end capital employed as set out below. ROCE measures the ability of the Group's assets to deliver returns.

	30 June 2023 unaudited US$m	Half year 2022 unaudited US$m	Full year 2022 audited US$m
Operating profit from continuing operations before exceptional and acquisition related items on a last twelve months' basis adjusted for the full twelve months impact of acquistions[1]	**218.1**	225.3	250.9
Non-current assets			
Acquired intangible assets	**358.7**	32.7	366.6
Property, plant and equipment	**239.9**	231.7	256.3
Right-of-use assets	**82.2**	80.7	96.5
Trade and other receivables	**21.4**	14.6	20.2
Current assets			
Inventories	**193.5**	245.4	211.4
Trade and other receivables	**294.1**	301.2	286.3
Current liabilities			
Trade and other payables	**(274.4)**	(328.2)	(278.4)
Lease liabilities	**(17.3)**	(17.1)	(19.0)
Non-current liabilities			
Trade and other payables	**(4.8)**	(4.9)	(5.6)
Lease liabilities	**(75.6)**	(71.5)	(86.4)
Capital employed	**817.7**	484.6	847.9
ROCE	**27%**	46%	30%

[1] Operating profit from continuing operations before exceptional and acquisition related items on a last twelve months basis to 30 June 2023 and to 31 December 2022 has been adjusted to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the twelve month period. Including full twelve months pro forma results, rather than the actual consolidated results of these acquired businesses, better reflects the return from the capital position at the period end. Therefore this provides reliable and more relevant information on the financial performance of the Group to a user of the financial statements. Refer to the condensed consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

16. 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 $79.3 million as at 30 June 2023 (31 December 2022: $42.2 million; 30 June 2022: $94.9 million). The increase in the net surplus during the six months ended 30 June 2023 is primarily due to movements on the UK scheme.

16. 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 2023 of $151.9 million (31 December 2022: $117.5 million; 30 June 2022: $174.1 million). The increase in the surplus during the six months ended 30 June 2023 of $34.4 million predominantly relates to actuarial gains net of tax of $8.8 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 $13.9 million and 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:

		30 June 2023		30 June 2022		31 December 2022
	+0.25%	**-0.25%**	+0.25%	-0.25%	+0.25%	-0.25%
	US$m	**US$m**	US$m	US$m	US$m	US$m
Discount rate	**(47.0)**	**49.5**	(64.5)	66.2	(51.4)	53.9
Inflation rate	**27.9**	**(26.7)**	41.3	(51.3)	28.0	(30.1)

An increase of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities decreasing by $176.6 million (31 December 2022: $192.3 million; 30 June 2022: $238.0 million). A decrease of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities increasing by $213.4 million (31 December 2022: $232.2 million; 30 June 2022: $289.4 million). The above sensitivity analysis (on a IAS 19 basis) is pre-tax and 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 2022 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 $57.2 million (31 December 2022: $59.8 million; 30 June 2022: $81.1 million).

During the six months ended 30 June 2023, the Group agreed a mechanism to switch off / switch on the regular cash contributions to the Coats UK Pension Scheme based on monthly estimates of the latest funding position. As such, if the Scheme remains in surplus for a consecutive number of months cash contributions will cease entirely until any trigger on the downside (i.e., a return to deficit) has been hit. At this point, contributions on a pre-agreed basis would resume. The Coats UK Pension Scheme surplus on an IAS 19 basis at 30 June 2023 of $151.9 million has been reported on the condensed consolidated statement of financial position in non-current assets and no amounts are now reported in current liabilities (31 December 2022: $27.4 million; 30 June 2022 $31.4 million).

Prior period restatement of pension surplus

The Coats UK Pension Scheme accounting surplus under IAS 19 has been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. As at 30 June 2023 the Group determined that the accounting surplus should be recognised after deducting a 35% withholding tax, which would be levied prior to the future refunding of any surplus and would be payable by the Trustees of the Scheme. The pension surplus has been presented on a net basis at 30 June 2023. The Coats UK Pension scheme also had an accounting surplus under IAS 19 at 31 December 2022, 30 June 2022 and 31 December 2021 but as originally reported the accounting surplus was not recognised after deducting the 35% withholding tax. Prior period amounts of the pension surplus included in the condensed consolidated statement of financial position at these dates have been restated to recognise the 35% withholding tax and present the accounting surplus on a net basis consistent with the accounting treatment at 30 June 2023. In addition amounts for remeasurements of defined benefit schemes and the foreign currency Great Britain pound sterling translation impact included in the condensed consolidated statement of comprehensive income have also been restated. There has been no impact on either the Group’s profits or cash flows for the respective periods as a result of this remeasurement.

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

Prior period restatement of pension surplus (continued)

Amounts as of 30 June 2022 and for the six months ended 30 June 2022 and as of 31 December 2022 and for the year ended 31 December 2022 have been restated as set out below:

	As reported US$m	Adjustment US$m	As restated US$m
Condensed consolidated statement of financial position			
30 June 2022			
Non-current assets:			
Pension surpluses	309.3	(93.7)	215.6
Total assets	1,646.6	(93.7)	1,552.9
Net assets and total equity	681.2	(93.7)	587.5
31 December 2022			
Non-current assets:			
Pension surpluses	222.7	(63.2)	159.5
Total assets	1,924.6	(63.2)	1,861.4
Net assets and total equity	699.3	(63.2)	636.1
31 December 2021			
Total equity	584.1	(37.8)	546.3
Condensed consolidated statement of comprehensive income			
Six months ended 30 June 2022			
Remeasurements of defined benefit schemes	160.4	(63.7)	96.7
Exchange differences on translation of foreign operations	(33.7)	7.8	(25.9)
Net comprehensive income and expense for the period	118.6	(55.9)	62.7
Year ended 31 December 2022			
Remeasurements of defined benefit schemes	59.8	(30.1)	29.7
Exchange differences on translation of foreign operations	(31.9)	4.7	(27.2)
Net comprehensive income and expense for the year	48.8	(25.4)	23.4

17. Fair value of assets and liabilities

As at 30 June 2023 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).

17. Fair value of assets and liabilities (continued)

Financial assets measured at fair value

30 June 2023	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Trading derivatives	**2.2**	**-**	**2.2**	**-**
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	**5.7**	**0.7**	-	**5.0**
Total	**7.9**	**0.7**	**2.2**	**5.0**

30 June 2022	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
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
Total	7.8	0.9	1.9	5.0

31 December 2022	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Trading derivatives	1.6	-	1.6	-
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	5.9	0.9	-	5.0
Total	7.5	0.9	1.6	5.0

17. Fair value of assets and liabilities (continued)

Financial liabilities measured at fair value

30 June 2023	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(3.7)**	**-**	**(3.7)**	**-**
Derivatives designated as effective hedging instruments	**(2.9)**	**-**	**(2.9)**	-
Total	**(6.6)**	**-**	**(6.6)**	**-**

30 June 2022	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
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)	-
Total	(9.6)	-	(9.6)	-

31 December 2022	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(5.9)	-	(5.9)	-
Derivatives designated as effective hedging instruments	(3.1)	-	(3.1)	-
Total	(9.0)	-	(9.0)	-

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. There were no changes in the Group’s valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the six months ended 30 June 2023.

18. Post balance sheet events

There have been no events between the balance sheet date, and the date on which the condensed consolidated financial statements were approved by the Board, which would require adjustment to the condensed consolidated financial statements or any additional disclosures.

19. 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 2022 and these are expected to stay the same for the remainder of 2023. These principal risks and uncertainties are as follows:

Strategic risks

1. M&A programme ambition risk in light of the Group's increasing ambition in the scale of its acquisition programme and its ability to source, satisfactorily acquire and integrate suitable targets
2. Risk of ever-increasing customer product and sustainability expectations and continuing ability to meet and exceed those expectations
3. Risk of failure to attract, retain and develop diverse and inclusive set of talent and capability given business changes, growth in new areas and labour availability challenges

External risks

4. Economic and geopolitical risk arising from significant macroeconomic and demand uncertainty – across both key Asian and developed markets – including risk to free trade conventions – as well as global inflationary pressures and ongoing geopolitical developments
5. Cyber risk – risk of cyber incidents leading to corruption of applications, critical IT infrastructure, compromised networks, operational technology and/or loss of data
6. Climate change risk arising from either (i) the impact of failing to sufficiently address the need to decarbonise the Company's operations and reduce emissions, leading principally to commercial and reputational risks and the financial risk of emissions taxes or other legislative changes, or (ii) the physical impact of climate change on the Company's operations and business model, and that of its customers in the textile supply chain
7. Risk of supplier non-performance, unavailability and/or price increases of raw materials, labour and freight and/or logistical challenges causing major disruption to Coats' supply chain
8. Environmental non-performance risk given changing standards, increasing scrutiny, customer and investor demands and expectations and scale of Group's own self-imposed standards and ambitions, creating commercial, financial and reputational risks as well as opportunities

Operational risks

9. Health and Safety risk – risk of (i) safety incident(s) leading to injury or fatality involving our employees or other interested parties such as contractors, visitors, onsite suppliers etc along with potential resulting prosecution, financial costs, business disruption and/or reputational damage; and/ or (ii) physical and mental health issues, including as a result of the pandemic, impacting wellbeing, engagement, productivity and talent retention
10. Bribery and anti-competitive behaviour risk - risk of breach of anticorruption law or competition law, resulting in material fine and/or reputational damage

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 2022 on pages 42 to 49, a copy of which is available on the Group's website, 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 2022.

20. Related party transactions

There have been no related party transactions or changes in related party transactions described in the 2022 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.

21. Directors

The following persons were directors of Coats Group plc during the half year ended 30 June 2023 and up to the date of this report:

D Gosnell OBE
R Sharma
N Bull
J Callaway
H Lawrence (Resigned 31 March 2023)
H Lu
S Murray
F Philip
J Sigurdsson

22. Publication

This statement will be available at the registered office of the Company, The Pavilions, Bridgwater Road, Bristol, BS13 8FD, United Kingdom. A copy will also be displayed on the Company's website, 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 21 to the Condensed Consolidated Financial Statements.

By order of the Board,

D Gosnell
Chair
31 July 2023

United Kingdom
The Pavilions, Bridgwater Road, Bristol, England, BS13 8FD Tel: 0208 210 5000

Registered in England and Wales No. 103548