2 March 2023

Coats Group plc

2022 Full Year Results

10% organic revenue growth, 22% organic adjusted operating profit growth and strong free cash flow

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread and footwear components manufacturer, announces its audited results for the year ended 31 December 2022.

Continuing operations	**FY 2022**	**FY 2021** [4]	**FY 2022 vs FY 2021**		
			Reported	CER	Organic
Revenue	$1,584m	$1,447m	9%	16%	10%
Adjusted [1]					
Operating profit	$235m	$198m	19%	27%	22%
Basic earnings per share	8.2c	7.2c	14%		
Free cash flow	$114m	$124m			
Net debt (excl. lease liabilities)	$394m	$147m			
Reported [2]					
Operating profit	$181m	$178m	2%	9%	9%
Basic earnings per share [5]	4.8c	5.8c	(18)%		
Net cash generated by operating activities	$96m	$129m			
Final dividend per share	1.73c	1.50c			

Strategic Highlights

- Another year of excellent strategic progress alongside strong results
- Acquisition of Texon and Rhenoflex establishes market leader in footwear components; acquisitions trading in line with expectations, and integration and delivery of expected cost synergies on-track
- Strategic projects delivered accelerated in-year savings of $20 million, ahead of expectations; project scope now also expanded with total savings up from $50 million to $70 million by 2024 for $50 million cash cost
- Ongoing focus on product innovation with 17 new products brought to market and continuing strong growth from recycled products, with CER revenue increasing 37% to $127 million
- Substantially delivered against ambitious 2022 Sustainability goals, with significant improvement in all areas; new 2026 targets to drive further momentum to our approved 2030 Science Based Targets and Net Zero
- Significant progress in de-risking UK pension scheme; £350 million buy-in transaction completed in December 2022
- Agreement with UK pension scheme trustees on a switch off/on mechanism for future cash contributions, as a result of material improvements in the funding position; gives rise to potential significant Group free cash flow benefits

Financial Highlights

- Strong Group organic revenue growth of 10% (9% on a reported basis), ahead of targeted medium-term growth of c.6%:
    - Apparel & Footwear (A&F): full year organic revenue growth of 9%, driven by exceptional first half performance, prior to some industry destocking, particularly in Q4
    - Performance Materials (PM): full year organic revenue growth of 13% with all three sub-segments delivering growth
- Continued competitive gains in thread with market share up >100bps to estimated c.24%

- Adjusted operating profit increased to $235 million (reported $181 million), in line with market expectations, reflecting strong pricing and mix fully offsetting inflation, as well as part-year contribution from acquisitions and strategic projects
- Adjusted operating margin up 120bps to 14.8% with A&F and PM both contributing to the increase
- Adjusted EPS increased 14% to 8.2c, reflecting strong trading performance and delivery of strategic project savings. Basic EPS 4.8c (2021: 5.8c), included impact of exceptional and acquisition-related items
- Strong free cash flow of $114 million as a result of increased operating profits and good capital expenditure and working capital management
- Year-end net debt (excluding lease liabilities) of $394 million after acquisitions, with proforma leverage of 1.4x,[3] comfortably within 1-2x target range
- Proposed final dividend of 1.73 cents, +15%, resulting in full year dividend of 2.43 cents, +15%; reflects the strong set of results, organic growth and margin potential, as well as the Board's confidence in the medium term

Full Year Outlook in Line with the Board's Expectations

- Expect to deliver another year of strategic and operational progress. Destocking by customers has continued into the early part of the year, primarily in Apparel markets and to a lesser extent in Footwear
- Continue to proactively respond to macroeconomic environment and inflationary pressures using our well-defined and tested playbook, focusing on cash, costs, self-help initiatives, deep customer relationships and tactical pricing actions
- Continue to anticipate full year 2023 performance in line with the Board's expectations, with second-half weighting, underpinned by the contribution from acquisitions, associated synergies and strategic projects

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

"Coats produced a strong set of results in 2022, a year which was characterised by high inflation and supply chain disruption. Organic revenue growth was 10%, above our targeted medium-term growth of around 6%, and organic adjusted operating profit increased 22%.

"We made further excellent progress in transforming the Group during the year, and this has made Coats a stronger, fitter and more focused Group, enhancing our leading market positions in industrial thread and footwear component markets. The 2022 acquisitions of Texon and Rhenoflex have not only significantly strengthened our position in the attractive footwear market but also increased our medium-term organic growth and margin potential.

"Our strategic projects, aimed at increasing the efficiency and effectiveness of our operations, have been successfully progressed at speed during the year and we have today, in a period of macroeconomic uncertainty, increased our total targeted 2024 adjusted operating profit savings to $70 million, from the previous $50 million.

"As a result of the transformational work done to date, the Group remains very well-positioned in its markets with a focus on growing brands. In addition, Coats has global leadership, a wide geographic footprint, scale, product and quality differentiation and a pipeline of innovative and sustainable products. Consequently, we remain excited about the growth and margin opportunities across the Group over the medium term."

[1]. Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 14. Constant Exchange Rate (CER) metrics are 2021 results restated at 2022 exchange rates. Organic figures are results on a CER basis and excluding 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]. Restated to reflect the results of the Brazil and Argentina business, divested in 2022, as a discontinued operation.

[5]. From continuing operations.

Conference Call

Coats Management will present its full year results in a webcast at 09.00 GMT today (Thursday, 2 March 2023). The webcast can be accessed via www.coats.com/investors/fy2022. The webcast will also be made available in archive form 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 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 three 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 an aspiration 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 full year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Group Chief Executive's review

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, with a strategy 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.

2022 Full Year Results Overview

Introduction

We made further excellent progress in transforming the Group during the year. We purchased Texon and Rhenoflex, significantly enhancing our position in the attractive footwear market and increasing our medium-term organic growth and margin potential. The integration of those businesses is on-track with efficiency savings starting to come through at the year end, in line with plan. Our strategic projects, announced at the start of 2022, and which will increase the efficiency and effectiveness of our operations, have been accelerated with greater in-year cost savings achieved as a result ($20 million versus the initially guided $5-$10 million). We have also now expanded the scope of these projects, with our total targeted adjusted operating profit savings by 2024 increasing to $70 million, from the previous $50 million.

In addition, we have also substantially delivered against our ambitious 2022 sustainability targets, exceeding these in some areas, with further details in the Sustainability section below. We have challenged ourselves again by setting further ambitious milestones for delivery in 2026, building on our achievements to date. The milestones will help us continue the momentum to our 2030 Science Based Target Initiative (SBTi) approved targets, and our commitment to be Net Zero by 2050.

We delivered revenue of $1,584 million in the year, an increase of 16% on a constant currency basis. This increase reflects the acquisitions of Texon and Rhenoflex in the year and strong Group organic revenue growth of 10%, above our c.6% medium term target growth. This organic revenue growth reflects our outstanding trading performance in H1, which was driven by industry restocking and buffer buying in the face of supply chain disruption, and strong pricing and mix, alongside improving market demand. As anticipated, year-on-year performance slowed during the second half, in part due to the strong 2021 comparator results, as well as a softening in demand due to macroeconomic factors, with some destocking. This was most noticeable in Apparel markets in Q4 but also impacted Footwear towards the end of the year. Reported Group revenue, including adverse currency movements, grew 9%.

Apparel & Footwear delivered organic revenue growth of 9%, reflecting the demand profile across the year described above. The 2022 Texon and Rhenoflex acquisitions traded in line with our expectations. Performance Materials delivered a strong performance, growing 13% organically, with its three sub-segments all delivering good organic growth. As previously announced, and reflecting the changing shape of the Group, we will report from 1 January 2023 a revised three division structure: Apparel, Footwear and Performance Materials.

In recent years our Apparel & Footwear business has grown faster than the underlying market by taking market share. This trend has continued in the year with an organic increase in market share of over 100bps, to an estimated c.24%. We have also achieved significant customer successes in Performance Materials, as we bring new innovative products to market. Our ability to gain market share is testament to the success of our strategy, including our strong customer relationships, with a focus on growing, premium brands. This is, in part, a result of our global scale, the premium quality of our products and our ability to offer value-add technical services. Our investment in innovation across all our businesses enables us to bring new and differentiated products to market. We have a particular focus on products made from recycled or biomaterials, where we are the market leader. Our significant multi-year investment in making our operations more sustainable, an investment many of our smaller competitors cannot replicate, is a real differentiator for many of our customers, who have made their own environmental commitments. This investment is consistent with the increasing trend for consumers to buy sustainable products supported by a sustainable supply chain, and we have continued to rapidly grow our revenue from sustainable products. We are confident that we will continue to grow our market share in future.

The year was also characterised by high inflation and supply chain disruption, although this has moderated in places, as we progressed through the year. Our pricing actions and proactive self-help efficiency programmes have continued to fully offset inflationary pressures in the supply chain for raw materials, labour, energy and freight costs.

In the second half, the rate of inflationary increases for raw materials and freight, stabilised or moderated, although input prices remain well ahead of the prior year and are likely to remain elevated for some time.

Despite these significant operational challenges, adjusted operating profit increased 27% on a constant currency basis to $235 million. This reflects the effectiveness of our pricing initiatives, an enhanced mix, the contribution from Texon and Rhenoflex, the initial benefits from our strategic projects as well as ongoing operating efficiencies. The Group adjusted operating margin increased by 120bps to 14.8%. Both Apparel & Footwear and Performance Materials contributed to this increase. Operating profit increased 2% to $181 million, after strategic project costs and acquisition-related items.

We generated strong adjusted free cash flow of $114 million reflecting the increased operating profit alongside well-controlled capital expenditure and working capital management. Year-end net debt (excluding lease liabilities) was $394 million, with proforma leverage of 1.4x net debt/EBITDA after our 2022 acquisitions, comfortably within our target range of 1-2x net debt/EBITDA.

We have made excellent progress in recent years to reduce and de-risk the funding deficit within the Coats UK Pension Scheme. A further significant step was achieved in December 2022, with the trustee purchasing a c.£350m bulk annuity policy from Aviva. This partly de-risks our UK defined benefit scheme by fully funding all financial and demographic risks for approximately 20% of scheme liabilities. In addition, and as a result of the significantly improved funding position and de-risking actions, we have reached agreement with the Pension Scheme Trustees on a mechanism to switch off / switch on the regular cash contributions to the Scheme. This will be based on monthly estimates of the latest funding position, and gives rise to the potential for significant free cash flow benefits from lower or eliminated cash contributions, if the Scheme remains fully funded on its technical provisions basis. On a medium term basis and when market conditions permit, we aim to remove the Scheme from the Group's balance sheet in a cost effective manner.

Acquisition of Texon and Rhenoflex

During the year we acquired Texon International Group Limited (Texon) in July 2022 and Rhenoflex GmbH (Rhenoflex) in August 2022 for a combined consideration of $355 million. This is equivalent to a post-synergy multiple of around 8x EBITDA. As a result of these acquisitions, on a proforma full-year basis, around a quarter of our total revenue is now in higher growth footwear markets. We estimate medium term market growth of 7-8% per annum, ahead of the medium term Group target of c.6%.

Texon and Rhenoflex are leading footwear and accessories solutions providers, bringing a range of products, including heel counters, toe puffs and insoles, which complement Coats' existing footwear threads business. Together, the three businesses are the leading, global component supplier to the highly attractive footwear market, within a fragmented supply chain. There is a strong focus in the business on fast-growth, premium-priced quality, sports and athleisure brands.

The combined business has an enhanced portfolio of highly differentiated and innovative components, which are predominantly brand specified. These include a leading portfolio of sustainable products, including recycled and plant based components, which are increasingly in demand for new and long-life footwear products. The acquisitions present exciting opportunities to cross-sell the broad range of complementary components within the business to an expanded customer base. Early conversations with customers have been encouraging, as they can benefit from our ability to supply a wider range of premium, engineered components. This would enable them to consolidate their supply chain with a longstanding and trusted supplier. The acquisitions continue to trade in line with our expectations.

The Group remains on-track to deliver an initial $11 million of annualised cost efficiencies from the integration of the combined business by the end of 2023. These efficiencies principally relate to the elimination of duplicated roles, consolidation of back-office functions and procurement efficiencies resulting from increased scale. Good progress has been made in the year, with the business now operating under a single, energised leadership team. By the end of 2022, we had already delivered run-rate cost efficiencies of $3 million.

Focusing the Portfolio on Attractive Markets

As announced in May 2022, and in line with our strategy to accelerate profitable sales growth, we completed the disposal of our business in Brazil and Argentina. We also exited direct operations in South Africa and all operations in Russia during the first half.

On 31 January 2023, we completed the divestment of our small business operations in Mauritius and Madagascar. Production in these countries has become increasingly focused on domestic and regional customers with the more international customer base gradually migrating their production elsewhere.

Strategic Projects

We have a strong track record of managing our costs lower and delivering operating efficiencies, and we continued to focus on costs during the year. To this end, we announced a number of new strategic projects in March 2022. These will improve margins by optimising the portfolio and footprint, enhance the overall cost base efficiency, and mitigate structural labour availability issues in the US.

We have accelerated project implementation, delivering in-year efficiencies in 2022 ahead of our expectations ($20 million versus the initially guided $5-$10 million). In addition, we now expect to deliver total savings of $70 million by 2024, a significant increase on the $50 million we had previously guided. The additional $20 million savings will primarily arise from expanding the scope of our strategic projects, with a focus on the transformation of our Asian operations, in particular in China and India. The total exceptional cash cost of the projects is expected to be $50 million (previously $35 million).

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

We have in-train a number of initiatives to further optimise our portfolio and footprint, including mitigating structural labour availability issues in the US. We have exited legacy facilities and technology in the US and established a new state- of-the-art facility in Huamantla, Mexico, while also making significant investment in our existing plant at Orizaba, Mexico. These sites are operational, following fit-out and recruitment and training of the workforce, with overall project timing on-track. In addition, we expect to commission a second new plant in Mexico by the end of the first half of 2023, which will further improve efficiency and US labour availability issues.

As part of this project, we have installed new, proprietary technology which reduces the number of manufacturing processes, while increasing our flexibility to meet customer needs. The development of a new employee-friendly and digitally controlled bonding process, underpinned by our proprietary infra-red bonding equipment, is a key enhancement to our operations. We have also installed the latest compressed air system resulting in lower energy intensity. To date, the project has enabled us to deliver increased output for key growth segments. Wherever possible, we have re-used equipment from our US plants, reducing the capital requirements of the project and reducing scrap.

Due to their timing and nature, the costs and benefits of these projects are expected to accrue predominantly during 2023 and 2024.

In addition, we have continued to consolidate our footprint in other geographies. Following the announcement of the closure of our warehouse in Poland in the first half, which was completed in August, we exited our warehouse in Hungary at the end of the year. This has enabled us to consolidate our European thread operations in Romania in a modern, purpose-built facility.

Improving the overall cost base efficiency

A further focus is on improving the overall cost base efficiency of the Group, and we commenced a project in the first half with particular emphasis on our higher cost UK and US locations. The objective is to move a number of our corporate and overhead activities closer to our operations and customers, making us at once more efficient and more effective. Following the progress delivered in the first half, we have continued to accelerate implementation of the project and have delivered total savings in 2022 of $20 million. These savings are ahead of our initial expectations of $5-10 million for the year, and ahead of our increased expectations of $15 million set out at the H1 2022 results. The project is continuing into 2023, with further savings expected in line with our original overall expectations.

Strategic Enablers: Innovation, Sustainability and Digital

Our strategic enablers of Innovation, Sustainability and Digital underpin our strategy to accelerate profitable sales growth while delivering sustainable stakeholder value. We made further progress during the year, as follows.

Innovation

We innovate to deliver differentiated, highly-engineered products that will deliver profitable growth. Our innovation is inextricably linked to sustainability, as many of the key market trends have sustainability at their core. These include the sourcing of natural and recycled materials for production, more efficient production techniques, the production of lightweight, protective and multi-use products and technologies that enhance the ability to recycle end-of-life

products. Our success in bringing innovative new products to market that drive revenue and margin growth is based on a number of critical factors. These include the use of technology roadmaps, and our close relationships and collaboration with customers.

During the year we launched 17 (2021: 21) new products which delivered a combined $34 million (2021: $37 million) of incremental revenue across the Group in their first year. All of our businesses contribute to the pipeline of new and innovative products, with a few examples from across the Group:

- EcoCycle: a ground breaking, water dissolvable concept using a blend of water based polymer and substrate. This enables the easy and low-cost separation of textile and non-textile components in end-of-life garments, facilitating re-use;

- Eco B: a recycled polyester thread that allows synthetic plastic-based fibres to behave more like natural fibres, such as wool;

- Rhenoprint™ multizone: a process for manufacturing structural components that generates zero waste. It allows for adjustment of the amount of material used to create a more refined product affording greater levels of comfort and stability;

- Ecostrobe: footwear components made entirely from recycled plastic, without quality or performance loss. The fully recycled nature of the product appeals to customers, as it facilitates end-of-life material re-use;

- StremX: a composite strength member for fibre optic cables made of a mix of organic and inorganic fibres. The product enables production of lighter, thinner cables as a result of greater tensile strength and crimping characteristics. It is also very cost-effective to manufacture;

- FlamePro Splash Protect: a metal molten splash protective fabric engineered to be lightweight, soft, flexible and durable. It ensures protection against radian heat, flame, metal splash and other smelting hazards due to its thermal resistant and metal-shedding design. FlamePro Splash Protect is durable after laundry with good wash fastness, so extending the life of the garment.

During the year, Performance Materials opened a new and significantly larger plant in Spain for the manufacture of products for the global telecommunications industry. The plant has a new innovation centre specialising in the development of products for applications in telecommunications and oil and gas markets.

Our new product pipeline remains strong. We will continue to develop our innovation credentials to deliver sustainable, tailored solutions in line with customer requirements.

Sustainability

A key part of our company purpose is to make a better and more sustainable world, and we aim to set benchmark performance for our industry. Not only does this help people and the planet, it also makes good business sense. It enables us to differentiate our offerings and position ourselves to be a supplier of choice in the rapidly growing market for sustainable apparel and footwear products. In addition, by using less resources, including less energy and water, we are aligned with broader sustainability trends but also reducing our costs.

We are continuing towards our long-term commitment of being Net Zero by 2050, initially by following a pathway to our 2030 SBTi goals. As part of these SBTi goals, we will reduce scope 1 and 2 emissions by over 46% by 2030 (with scope 3 reduced by 33%), with 70% of our global energy consumption coming from renewables. In addition, no Coats products will be made using new oil-extraction materials such as virgin polyester and nylon. We will also adopt a circularity approach, creating products and packaging solutions that enable recycling and reuse, within our own operations and across the wider garment industry.

Our shorter term 2022 targets were set in 2019. These were set at ambitious levels to challenge us to address at speed the key sustainability issues within the business. We are proud of what we have achieved during the period to the end of 2022, substantially delivering against our goals, and we have met or exceeded the targets for many. In particular, our energy intensity has been reduced from the 2018 baseline, achieving 143% of the 7% target. Our target of 80% of employees working within a Great Place to Work certification has also been exceeded, achieving 108% of the target. We also achieved our 25% waste reduction target.

We have delivered significant improvement in all areas although, in a few cases, we fell just short of our targets. We targeted a 40% reduction in water intensity and achieved 95% of the target. We are also just short of our target of 100% compliance with industry driven Zero Discharge of Harmful Chemicals (ZDHC) effluent standards, delivering a significantly improved 92% ZDHC compliance performance in the year. We have put in place detailed plans to remedy the remaining issues, which arose at a small number of plants.

We continued to rapidly increase sales of our range of 100% recycled products, driven by market demand, where we are the clear global market leader. Our revenue increased in the year by 37% to $127 million (2021: $93 million) at CER. We remain focused on ensuring all our premium polyester threads are made from 100% recycled material by 2024, and we are making good progress towards this.

We have now set further medium-term sustainability milestones, using 2022 as the new baseline. This will enable us to continue on the path to our 2030 SBTi approved targets and our 2050 Net Zero commitment. These specific, measurable and, once again, ambitious 2026 targets continue to focus on people, water, emissions and waste reduction, as well as product innovation and materials transition. We have added two new 2026 target areas. These relate to an increase in the number of female leaders in the business as well as to reductions in scope 1 and scope 2 emissions. These 2026 targets will enable us to continue to drive our sustainability momentum.

We had previously earmarked $10 million to fund the scaling up of green technologies and materials that are relevant to our industry supply chain. During the year, we allocated our first tranche of this money to investment in water-free dyeing technology, with other exciting ideas under consideration. The re-purposing of our Asia Innovation Hub in Shenzhen, China to focus on the application of biomaterials has now been completed, following investment in top talent in a range of technologies, including textile engineering, polymer chemistry and dyeing, coating and bonding.

We also submitted our Carbon Disclosure Project (CDP) Climate Change and Water questionnaire during the year, receiving a B- and B rating respectively, reflecting our 2021 performance. We aim to improve on this in future surveys.

Digital

By adopting and promoting digital technologies we are able to facilitate closer links with our customers, increase our operational agility and the efficiency of our operations and those of our customers.

During the year, we enhanced our digital customer ecosystem, ShopCoats, through which customers can use automated bulk and sample ordering and status management. We supported valuable key accounts through system integration, refreshed our front-end order system and used Microsoft Dynamics Customer Relationship Management software to enhance our sales and customer service systems. These tools give us speed, agility, lower cost and increased customer satisfaction.

In addition, our Coats Digital business, part of Apparel & Footwear, sells software which enables fashion brands, sourcing companies and manufacturers to optimise, connect and accelerate business critical processes seamlessly. This includes design and development, method-time-cost optimisation, production planning and control, fabric optimisation and shop floor execution. Orders for this software have increased during the year, reflecting the growing importance of digital business in driving efficiency and business improvement.

As part of the Rhenoflex acquisition in 2022, we acquired the proprietary Rhenoprint™ 3D printing capability. This unique process for developing and producing footwear components provides leading brands a print-to-order solution, according to individual needs. The process facilitates enhanced shoe performance and characteristics, while delivering product as part of a completely waste-free process.

Dividend

We have delivered a strong set of results in the year and, as a result of our ongoing transformation, we are well-positioned in our markets with growth and margin opportunities. Consequently, the Board is pleased to propose a final dividend of 1.73 cents per share, a 15% increase on the prior year. Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2023 to ordinary shareholders on the register at 28 April 2023, with an ex-dividend date of 27 April 2023. Alongside the interim dividend of 0.70 cents per share, this makes a total dividend of 2.43 cents per share for the year, an increase of 15%.

The Board will continue to review the level of dividend payment to shareholders, as we continue to deliver margin and earnings growth, alongside strong cash generation.

Full Year Outlook in Line with the Board's Expectations

Following a year of excellent progress in transforming the business, market share gains and increased profitability, we expect to deliver another year of strategic and operational progress. Destocking by customers has continued into the early part of the year, primarily in Apparel markets and to a lesser extent in Footwear markets, however we continue to proactively respond to the macroeconomic environment and inflationary pressures using our well-defined and tested playbook that focuses on cash, costs, self-help initiatives, deep customer relationships and tactical pricing actions.

As a result, we continue to anticipate that full year 2023 performance will be in line with the Board's expectations, with a weighting to the second half. This performance will be underpinned by the contribution from acquisitions, in addition to associated synergies and efficiencies from strategic projects.

Coats has global leadership, a wide geographic footprint, scale, product and quality differentiation and a pipeline of innovative and sustainable products. This will enable revenue growth ahead of market. Looking further ahead, as a result of the transformational work completed to date, we remain well-positioned to grow earnings and cash.

Operating Review

	2022	**2021** [3]	**2021 CER** [1]	**Inc / (dec)**	**CER** [1] **inc/(dec)**	**Organic** [4] **inc/(dec)**
Continuing operations	**$m**	**$m**	**$m**	**%**	**%**	**%**
Revenue						
By segment						
A&F	1,163	1,048	988	**11%**	**18%**	**9%**
PM	420	399	373	**5%**	**13%**	**13%**
Total	**1,584**	**1,447**	**1,361**	**9%**	**16%**	**10%**
By region						
Asia	912	850	826	7%	10%	6%
Americas	341	314	311	9%	10%	9%
EMEA	331	283	225	17%	48%	25%
Total	**1,584**	**1,447**	**1,361**	**9%**	**16%**	**10%**
Adjusted operating profit [2]						
By segment						
A&F	201	171	162	18%	24%	18%
PM	34	27	23	26%	47%	47%
Total adjusted operating profit	**235**	**198**	**185**	**19%**	**27%**	**22%**
Exceptional and acquisition related items	(54)	(20)				
Operating profit	**181**	**178**				
Adjusted operating margin [2]						
By segment						
A&F	17.3%	16.3%	16.4%	100bps	90bps	140bps
PM	8.1%	6.8%	6.2%	130bps	190bps	190bps
Total	**14.8%**	**13.7%**	**13.6%**	**120bps**	**120bps**	**150bps**

1 *Constant Exchange Rate (CER) are 2021 results restated at 2022 exchange rates.*
2 *On an adjusted basis which excludes exceptional and acquisition-related items.*
3 *Restated to reflect the results of the Brazil and Argentina business as a discontinued operation.*
4 *Organic on a CER basis excluding contributions from Texon and Rhenoflex acquisitions*

2022 Operating Results Overview
Group revenue of $1,584 million increased 9% on a reported basis, 16% on a CER basis (which includes the initial impact of the Texon and Rhenoflex acquisitions), and 10% on an organic basis. This was driven by pricing actions which fully offset ongoing heightened inflationary pressures, market share gains and a strong market recovery during H1. As anticipated, year-on-year performance slowed during the second half, in part due to the 2021 comparator strengthening, as well as a softening in demand due to macroeconomic factors, with some destocking. This was most noticeable in Apparel markets in Q4 but also impacted Footwear towards the end of the year.

Group adjusted operating profit of $235 million increased 27% on a CER basis (2021: $198 million reported), with operating margins up 120bps to 14.8% (2021: 13.7%). On a reported basis operating profit was $181 million (2021: $178 million) after $54 million of strategic project costs and acquisition-related items.

Adjusted earnings per share ('EPS') for the year increased by 14% to 8.2 cents (2021: 7.2 cents) as operating profits grew significantly due to the strong trading performance and the delivery of savings from the strategic projects, alongside a reduction in the underlying effective tax rate. There was some offset from higher interest costs. Reported EPS of 4.8 cents (2021: 5.8 cents) was 18% lower, including the impact of exceptional and acquisition related items.

Apparel & Footwear ('A&F')
Coats is the global market leader in supplying premium sewing thread and footwear structural components to the A&F 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. Coats is also the global market leader in footwear structural components. Our highly engineered products have strong brand component specification, primarily targeted at the attractive athleisure, performance, and sports markets. The combination of Coats, Texon and Rhenoflex in this market has enabled us to accelerate our innovation and sustainability.

Our A&F business benefited from market share gains and strong pricing/mix fully offsetting inflationary pressures, along with post-COVID-19 industry inventory restocking, buffer buying in the face of supply chain disruption and continued underlying market recovery during H1. As anticipated, year-on-year performance slowed during the second half, in part due to the 2021 comparator strengthening, as well as a softening in demand due to macroeconomic factors, with some destocking. This was most noticeable in Apparel markets in Q4 but also impacted Footwear towards the end of the year. Despite these industry dynamics we have continued to leverage our key customer relationships, strong sustainability credentials, market-leading product ranges and technical services, and our flexibility and agility in a turbulent supply chain environment.

Revenue of $1,163 million (2021: $1,048 million) reflected strong growth of 18% on a CER basis (11% reported), which included the initial contribution of the Texon and Rhenoflex acquisitions, which were acquired in July and August 2022 respectively. Excluding acquisitions, organic growth was 9% for the full year with H2 adversely impacted, following the exceptional H1 (organic growth 21%), as a result of the changing market conditions described above, and strengthening comparators. The performance in the year reflects the flexibility of our global footprint and our ability to support customers during the COVID-19 recovery and ongoing uncertainty in global supply chains. Our global accounts programme, in which we dedicate customer relationship resources to our key brands and retailers, saw significant new customer and programme wins, which contributed to further overall share gains; this has included a new programme win with a major European retailer in relation to a sportwear brand launch where we are the nominated recycled thread supplier. We have also been able to further leverage our technical advisory and fast sampling service to deliver notable further sales successes in a number of Asian markets.

All of our geographic regions (Asia, Americas and EMEA) benefited from positive end market sentiment during H1, led by our ongoing ability to supply product. Market trends towards Sports and Athleisure, as well as casualisation, continued to accelerate. In addition, increasing online activity, a shift towards premium products and supply chain digitisation trends also continued during the year. Supplier consolidation, nearshoring and the need for agility were also prominent trends and, unsurprisingly, customers continue to place increasing emphasis on their sustainability agendas. Despite the slowdown in the second half of the year, largely driven by macroeconomic factors and resulting destocking, these longer-term trends remain and are opportunities to underpin further accelerated medium-term growth and share gains.

All A&F's sub-segments delivered organic revenue growth in 2022; A&F thread was up 9%, Zips and Trims was up 16%, and Coats Digital was up 3%.

Adjusted operating profit of $201m (2021: $171m) increased 24% vs 2021. Adjusted operating margin was up 90bps to 17.3% (2021: 16.4% at CER). Excluding the marginally dilutive initial impact of acquisitions (which are expected to be accretive, post synergies), A&F margins were up organically 140bps year-on-year to 17.8%. This was as a result of excellent commercial and operational delivery, pricing and procurement actions fully offsetting heightened inflationary pressures, alongside strategic project benefits and general cost discipline.

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 be able to provide highly engineered solutions for our customers. The segment 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, while Performance Threads has applications in a range of sewn products like safety-critical airbags and seat belts, outdoor goods, household products like bedding and furniture, hygiene-sensitive consumer goods like feminine hygiene and tea bags.

From 2022, the Group has disclosed PM in three sub-segments. Personal Protection (in 2022, 43% of divisional revenue), Composites (18% of revenue) and Performance Thread (39% of 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 Thread. The overall medium-term growth target for the division is a mid-high single digit growth CAGR (6-9%), as in the Revised Segmental Reporting section below.

There were new customer wins across all sub-segments, such as the nomination for our FlamePro Splash Protect fabric from a leading US-based manufacturer of protective garments for the molten metal industries and from an energy and data management provider for our extruded coated nylon, composite products used in cables for the energy and automotive segments.

Overall, PM revenue grew 13% to $420 million (2021: $399m) on an organic and CER basis (5% on a reported basis), which was driven primarily by price increases to offset inflation. Revenue growth performance vs 2021 was underpinned by strong demand in Composites (up 21%) despite some H1 supply chain issues in EMEA, and Personal Protection (up 19%), again due to strong demand but also operational improvements in the US yarns business. Performance Thread increased 4% vs 2021 despite weaker consumer demand in its Household and Recreation markets, and ongoing labour availability issues in the US. These operational constraints are being addressed via our strategic projects. In H2, overall demand has remained resilient across end markets.

Adjusted operating profit increased 47% on an organic and CER basis to $34 million (2021: $27 million). At an adjusted operating margin level, PM margins were up on an organic and CER basis by 190 bps to 8.1% (2021: 6.2%). While still impacted in the US by labour availability issues and labour inflation, US margins have improved significantly due to the positive impact of actions taken. Excluding the US business, PM margins were c.12%, slightly lower than 2021 (13%), as a result of specific temporary supply chain disruption issues within EMEA in H1, which have now been resolved.

Revised Segmental Reporting from 1 January 2023

As mentioned above, in July and August 2022 we completed the acquisitions of Texon and Rhenoflex respectively. This has made us the global leader in footwear components, alongside our existing global leadership position in industrial thread.

As a result of these acquisitions, and as announced at our Capital Markets Day in 2022, our new organisational and reporting structure, effective 1 January 2023, is comprised of three divisions; Apparel, Footwear and Performance Materials. The new Footwear segment will consist of the existing Coats footwear thread business (currently part of A&F), and the acquired footwear components businesses, Texon and Rhenoflex.

We will report our financial results on the new segmental basis from our HY23 results.

As announced at our 2022 Capital Markets Day, the medium-term sales growth CAGR for the new operating segments are anticipated to be 3-4% for Apparel, c.8% for Footwear, and 6-9% for Performance Materials, resulting in 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.

Geographical Performance

We saw strong revenue growth in all regions driven primarily by pricing actions, mix and positive end market sentiment during H1.

Our Asia revenue, 58% (2021: 59%) of Group, increased 6% CER to $912 million (2021: $850 million), despite some headwinds. While Vietnam and India delivered strong growth, following COVID-19 disruption in 2021, the market in China was impacted by COVID-19 disruption during H1 2022. Overall, Asian markets experienced significant demand and supply volatility throughout the year, with our performance underpinned by agility, customer focus and self-help initiatives.

Our Americas revenue, 22% (2021: 22%) of Group, increased 9% CER to $341 million (2021: $314 million), with a particularly strong performance in Colombia and Central America. In addition, our US Personal Protection business performed well, with strong demand and operational delivery improving significantly.

In EMEA, 21% (2021: 20%) of Group, revenue increased 25% CER to $331 million (2021: $283 million). This was driven by positive momentum in PM in telecommunication composites and transportation, as fibre optic sales remained robust. In A&F, Zips saw strong demand. Organic revenue growth also benefited from the weakening Turkish Lira, as we continued to price largely in USD, as well as from the adoption of hyperinflation accounting in that country.

In the Americas and EMEA, we also benefited from increased nearshoring, with customers bringing production closer to their end-markets, and this trend gathered momentum through the year.

Financial Review

Revenue

Group revenue increased 9% on a reported basis and 16% on a CER basis. On an organic basis revenue increased 10%, 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 increased from $198 million in 2021 to $235 million (including acquisitions) and adjusted operating margins increased 120bps to 14.8%. The table sets out the movement in adjusted operating profit during the year.

	$m	Margin %
2021 adjusted operating profit	**198**	**13.7%**
Volumes impact (direct and indirect)	(34)	
Price/mix	128	
Raw material inflation	(60)	
Freight inflation	(10)	
Other cost inflation (e.g. labour, energy)	(48)	
Productivity benefits (manufacturing and sourcing)	22	
Strategic projects savings	20	
Other SD&A savings	16	
Others (e.g. FX)	(6)	
Contribution from Texon and Rhenoflex acquisitions	9	
2022 adjusted operating profit	**235**	**14.8%**
Exceptional and acquisition related items	(54)	
2022 reported operating profit	**181**	

In the first half of the year, there were volume tailwinds as a result of the significant demand recovery in the period. In the second half, as anticipated, we saw a slow-down, particularly in Apparel. The direct and indirect volume impact of this, together with the increasingly strong 2021 comparators (due to the exceptional demand conditions, which continued into H1 2022), resulted in a direct and indirect volume headwind in the year.

In part as a result of increasing oil prices in the latter part of 2020, and throughout 2021 and 2022, we experienced year-on-year inflationary pressures for a number of major cost categories, most notably raw materials, freight and other costs such as labour and energy. As in previous years, we were able to fully offset these headwinds, by means of productivity benefits and increased pricing. These inflationary pressures continued throughout 2022, albeit with some flattening out and price moderation in certain areas in the latter part of the year. There was early evidence of this, for example, in relation to some raw materials and freight.

Selling, Distribution and Administration costs have continued to be well controlled, despite ongoing inflationary impacts. These are below last year as we reduced our costs, particularly in the face of more challenging conditions in H2. We have also benefited from $20 million of savings in the year, in relation to our strategic projects announced in early 2022, and these are ahead of our initial expectations for the year. We have increased the total efficiencies we expect to deliver by 2024 by $20 million through expanding the scope of the projects, in particular focusing on our Asian operations, and we now expect to deliver a total of $70 million incremental benefits.

Our 2022 acquisitions, Texon and Rhenoflex, delivered a $9 million contribution to adjusted operating profit post-acquisition. This was in line with our acquisition business case, and we moved quickly in the year to deliver the anticipated synergies ($11 million total by 2024) with run-rate savings at the year-end of $3 million.

As a result of these factors, the Group's adjusted operating margins increased by 120bps to 14.8% on a CER basis (2021: 13.6%). Excluding the Texon and Rhenoflex acquisitions, the Group margin increased 150bps to 15.1%.

On a reported basis, Group operating profit (including exceptional and acquisition-related items) increased to $181 million (2021: $178 million). This includes exceptional items, and a breakdown is provided below. Exceptional and acquisition-related items are not allocated to segments, and as such the segmental 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 2022, this was a headwind of 7% on revenue and 8% on adjusted operating profit. These adverse translation impacts were primarily due to depreciation in the year in the Euro and the Indian Rupee and to the adoption of hyperinflation accounting in Turkey. At year-end exchange rates we expect a c.1% translation headwind for revenue and adjusted operating profit in 2023 (excluding any future hyperinflation impact, which cannot be forecast with accuracy).

Non-operating Results

Adjusted earnings per share ('EPS') increased by 14% to 8.2 cents (2021: 7.2 cents) as operating profits grew significantly, increasing from $198 million to $235 million (due to the strong trading performance and the delivery of savings from the strategic projects). This was alongside a reduction in the underlying effective tax rate of 29% (2021: 30%). There was some offset from higher interest. Reported EPS of 4.8 cents (2021: 5.8 cents) was 18% lower, including the impact of exceptional and acquisition related items.

The increase in adjusted profit before tax was due to the increase in adjusted operating profit ($37 million increase). This was partially offset by the net finance charge which was $8 million higher year-on-year (see further details below). There was a small (c.0.1 cents) dilutive impact from the two acquisitions completed during the year, which is not expected to recur in 2023, as the business case and synergies are delivered.

Net finance costs increased to $30 million (pre-exceptional) (2021: $21 million). The key drivers were a $9 million increase in interest on bank borrowings due to increasing interest rates on the floating elements of debt, and additional interest on the $240 million acquisition facility taken out in July to fund the Texon acquisition. In addition, there was a $6 million adverse movement on foreign exchange, largely as a result of Sterling weakness towards the year end, when we hedge a number of costs and cash flows, including scheduled UK pension contributions. These were partially offset by a $4 million decrease in interest on pension scheme liabilities, as a result of an IAS19 basis surplus at 31 December 2021. There was also a $2 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 year was $60 million (2021: $53 million). Excluding the impact of exceptional and acquisition-related items, the effective tax rate on pre-tax profit was 29% (2021: 30%). The reported tax rate was 37% (2021: 34%), after exceptional and acquisition related items.

Profit attributable to minority interests increased by 13% to $22 million (2021: $20 million) and was predominantly related to Coats' operations in Vietnam and Bangladesh, in which it has controlling interests.

Exceptional and Acquisition-related Items

Net exceptional and acquisition-related items before taxation were $55 million (2021: $20 million). These include strategic project costs of $31 million (of which $5 million are non-cash impairments) and acquisition-related items of $24 million.

Strategic project costs of $31 million relate to the commencement of a number of strategic initiatives during 2022; and primarily consist of severance costs of $22 million, non-cash right-of-use asset impairment charges in relation to UK and US office exits of $5 million, and legal / advisor / closure costs of $5 million, offset by a profit of $1 million from the sale of property. These significant actions have supported the acceleration of project benefits, as mentioned earlier, with $20 million of incremental adjusted operating profit delivered in 2022.

Acquisition-related items of $24 million consisted of the provisional amortisation charges from the newly recognised intangible assets from the Texon / Rhenoflex acquisitions ($8 million), related transaction costs ($13 million) and the amortisation of intangible assets acquired in previous acquisitions ($3 million).

Discontinued items

In May 2022, Coats completed the disposal of its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm.

As a result of the strategic exit from Brazil and Argentina, the operating results of these businesses prior to sale have been reported within discontinued operations during the current (2022 operating losses of $3 million) and prior years. This has resulted in an overall increase to the Group adjusted operating margin of around 50bps.

As a result of the transaction, we have disposed of $49 million of net assets (of which $45 million relates to working capital) for a cash payment to the purchaser and fees of $20 million. In addition, $15 million of historic foreign exchange losses have been recycled to discontinued operations. The Group's statutory profit of $7 million in the year (2021: $109 million) is stated after the loss on disposal from this divestment.

The exit from the Brazil and Argentina business is in line with Coats' strategic initiatives, announced in March 2022, to accelerate profitable sales growth and transform the company.

Cash flow

The Group delivered $114 million (2021: $124 million) of adjusted free cash flow in the year. Free cash flow is measured before annual pension deficit recovery payments, acquisitions, disposals and dividends, and excludes exceptional items.

Adjusted free cash flow performance was strong, albeit slightly below 2021, which benefited from some significant, favourable non-recurring items, including non-payment of 2020 staff bonuses. We managed net working capital closely, although there was a $22 million outflow (2021: $14 million outflow). This result was achieved after a significant investment in inventory to underpin service levels during an exceptional period of demand, supply chain disruption and inflationary pressure, which particularly impacted the first half. We continued our disciplined approach to payables and receivables management through the year.

Capital expenditure was $34 million (2021: $31 million), as we continued to maintain a selective approach to investing in growth opportunities, as well as in strategic projects. We anticipate 2023 capital expenditure to be in the $30-40 million range, as we continue to invest in support of our growth strategy and in our environmental performance.

Minority dividends of $18 million (2021: $17 million) were paid, as cash was repatriated from joint ventures to the Group. Tax paid was $55 million (2021: $48 million).

The Group delivered an overall free cash outflow of $247 million (2021: $33 million inflow). This primarily reflects the adjusted free cash inflow of $114 million, offset by:

- UK pension payments of $43 million (being $32 million of ongoing deficit recovery payments and administrative expenses, and $11 million catch-up of deferred 2020 payments which are now fully completed);
- Dividend payments of $33 million;
- Exceptional and acquisition related payments, mainly relating to strategic projects of $23 million;
- Acquisition transaction payments of $12 million;
- Disposals and discontinued operations of $26 million relating to the Brazil and Argentina business: payments to the purchaser and fees of $20 million and $9 million cash outflow from discontinued operations, net of the $3 million overdraft disposed of;
- Net cash paid to acquire the Texon business, which consisted of $235 million cash payment, offset by $17 million cash within the business at the time of acquisition.

The Rhenoflex acquisition, which consisted of a $120 million cash payment, was largely funded by an over-subscribed £92 million equity raise.

Net debt (excluding lease liabilities) at 31 December 2022 was $394 million (31 December 2021: $147 million). Including lease liabilities, net debt was $500 million (31 December 2021: $246 million).

Pensions and other post-employment benefits

The net surplus for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS19 financial reporting basis, was $105 million as at 31 December 2022, which was $84 million higher than 31 December 2021 ($21 million surplus). This increase was primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 31 December 2022 of $181 million (31 December 2021: $108 million). The increase in the surplus during the year of $73 million predominantly relates to net actuarial gains of $45 million. This is from an increased discount rate due to significantly higher corporate bond yields reducing liabilities, but this 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 $38 million, including $11 million of catch-up payments.

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.

As part of this constructive planning the Trustee of the Coats UK Pension Scheme completed a partial buy-in transaction in December 2022 by purchasing a c.£350 million bulk annuity policy from Aviva which insures benefits payable under the scheme in respect of c.3,700 pensioner and dependant members. These members represent roughly 20% of the scheme's liabilities.

The purchase of this policy sees all the Scheme's financial and demographic risks fully hedged for the covered liabilities. The Scheme will receive a regular stream of income that matches the pension payments for the covered members, making it a precise liability hedging asset. This further de-risks the Scheme and reduces future balance sheet volatility. It builds on the significant positive steps taken to de-risk the Scheme in recent years, resulting in 90% of the Scheme's inflation / interest rate exposure having previously been hedged.

The Aviva buy-in is consistent with Coats' 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. 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, 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 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. Given the latest funding position, 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 31 December 2022 was $394 million ($500 million including lease liabilities), an increase on 31 December 2021 ($147 million). This reflects disciplined cash management as noted above, offset by the acquisition-related items, payments in relation to the sale of the Brazil / Argentina business, ongoing pension deficit repair payments, shareholder dividends and exceptional cash costs in relation to strategic projects.

As previously reported, the Texon acquisition, which was completed in July 2022, was funded by a $240 million temporary acquisition facility. In January 2023, we successfully 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 5.5%). 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), and the new $250 million of USPP notes (2028 and 2030 tenors). The committed headroom on our banking facilities was approximately $250 million at 31 December 2022.

At 31 December 2022, our proforma leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 1.4x and remains well within our 3x covenant limit, and in the middle of our target leverage of 1-2x. Our interest cover covenant also continued to have significant headroom at 31 December 2022 at 19.0x vs a covenant limit of 4x. These 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 adequate resources to continue for at least the next 12 months and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements. Further details of our going concern assessment, financial scenarios and conclusions are set out in note 1.

Coats Group plc

Consolidated income statement

For the year ended 31 December	Notes	Before exceptional and acquisition related items US$m	Exceptional and acquisition related items (see note 3) US$m	2022 Total US$m	Before exceptional and acquisition related items US$m	Exceptional and acquisition related items (see note 3) US$m	2021* Total US$m
Continuing operations							
Revenue		**1,583.8**	**-**	**1,583.8**	1,446.7	-	1,446.7
Cost of sales		**(1,087.1)**	**(9.9)**	**(1,097.0)**	(979.3)	-	(979.3)
Gross profit		**496.7**	**(9.9)**	**486.8**	467.4	-	467.4
Distribution costs		**(126.1)**	**(3.8)**	**(129.9)**	(125.1)	-	(125.1)
Administrative expenses		**(135.7)**	**(41.4)**	**(177.1)**	(144.6)	(19.5)	(164.1)
Other operating income		**-**	**1.2**	**1.2**	-	-	-
Operating profit		**234.9**	**(53.9)**	**181.0**	197.7	(19.5)	178.2
Share of profits of joint ventures		**1.1**	**-**	**1.1**	1.2	-	1.2
Finance income	**4**	**2.6**	**-**	**2.6**	0.4	-	0.4
Finance costs	**5**	**(32.3)**	**(1.1)**	**(33.4)**	(21.8)	-	(21.8)
Profit before taxation		**206.3**	**(55.0)**	**151.3**	177.5	(19.5)	158.0
Taxation	**6**	**(60.1)**	**3.7**	**(56.4)**	(53.3)	0.2	(53.1)
Profit from continuing operations		**146.2**	**(51.3)**	**94.9**	124.2	(19.3)	104.9
(Loss)/profit from discontinued operations	**13**	**(3.7)**	**(83.9)**	**(87.6)**	(5.2)	8.9	3.7
Profit for the year		**142.5**	**(135.2)**	**7.3**	119.0	(10.4)	108.6
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		**120.2**	**(134.9)**	**(14.7)**	99.3	(10.4)	88.9
Non-controlling interests		**22.3**	**(0.3)**	**22.0**	19.7	-	19.7
		142.5	**(135.2)**	**7.3**	119.0	(10.4)	108.6
Earnings/(loss) per share (cents)	**7**						
Continuing operations:							
Basic				**4.80**			5.84
Diluted				**4.77**			5.82
Continuing and discontinued operations:							
Basic				**(0.98)**			6.10
Diluted				**(0.97)**			6.07
Adjusted earnings per share	**14 (d)**	**8.17**			7.17		

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

Coats Group plc

Consolidated statement of comprehensive income

Year ended 31 December	**2022** **US$m**	2021 US$m
Profit for the year	**7.3**	108.6
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains on retirement benefit schemes (note 15)	**59.8**	212.8
Tax on items that will not be reclassified	**(1.4)**	(1.0)
	58.4	211.8
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(31.9)**	(17.0)
Items reclassified to profit or loss:		
Exchange differences transferred to income statement on sale of business (note 13)	**15.0**	-
Other comprehensive income and expense for the year	**41.5**	194.8
Net comprehensive income and expense for the year	**48.8**	303.4

Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	**27.5**	284.2
Non-controlling interests	**21.3**	19.2
	48.8	303.4

Coats Group plc

Consolidated statement of financial position

	Notes	31 December 2022 US$m	31 December 2021 US$m
Non-current assets			
Goodwill	**12**	**124.7**	26.2
Other intangible assets	**12**	**488.7**	256.7
Property, plant and equipment		**256.3**	244.5
Right-of-use assets		**96.5**	91.6
Investments in joint ventures		**13.1**	12.0
Other equity investments		**5.9**	6.0
Deferred tax assets		**24.4**	20.7
Pension surpluses	**15**	**222.7**	159.7
Trade and other receivables		**20.2**	28.7
		1,252.5	846.1
Current assets			
Inventories		**211.4**	250.1
Trade and other receivables		**286.3**	302.7
Pension surpluses	**15**	**2.0**	5.2
Cash and cash equivalents	**11 (g)**	**172.4**	107.2
		672.1	665.2
Total assets		**1,924.6**	1,511.3
Current liabilities			
Trade and other payables		**(278.4)**	(346.8)
Current income tax liabilities		**(20.2)**	(16.5)
Bank overdrafts and other borrowings	**11 (g)**	**(16.7)**	(19.2)
Lease liabilities	**11 (g)**	**(19.0)**	(17.8)
Retirement benefit obligations:			
- Funded schemes	**15**	**(27.6)**	(41.9)
- Unfunded schemes	**15**	**(5.0)**	(6.1)
Provisions		**(18.2)**	(8.1)
		(385.1)	(456.4)
Net current assets		**287.0**	208.8
Non-current liabilities			
Trade and other payables		**(26.3)**	(24.2)
Deferred tax liabilities	**12**	**(65.3)**	(6.8)
Borrowings	**11 (g)**	**(550.1)**	(235.1)
Lease liabilities	**11 (g)**	**(86.4)**	(81.2)
Retirement benefit obligations:			
- Funded schemes	**15**	**(3.3)**	(5.6)
- Unfunded schemes	**15**	**(83.4)**	(90.2)
Provisions		**(25.4)**	(27.7)
		(840.2)	(470.8)
Total liabilities		**(1,225.3)**	(927.2)
Net assets		**699.3**	584.1
Equity			
Share capital	**8**	**99.0**	90.1
Share premium account	**8**	**111.4**	10.5
Own shares	**8**	**(0.1)**	(0.5)
Translation reserve		**(121.9)**	(105.7)
Capital reduction reserve		**59.8**	59.8
Other reserves		**246.3**	246.3
Retained profit		**270.7**	252.5
EQUITY SHAREHOLDERS' FUNDS		**665.2**	553.0
Non-controlling interests		**34.1**	31.1
Total equity		**699.3**	584.1

Coats Group plc

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained profit/ (loss) US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2021	90.1	10.5	(3.2)	(89.2)	59.8	246.3	(23.8)	290.5	28.4	318.9
Profit for the year	-	-	-	-	-	-	88.9	88.9	19.7	108.6
Other comprehensive income and expense for the year	-	-	-	(16.5)	-	-	211.8	195.3	(0.5)	194.8
Dividends	-	-	-	-	-	-	(27.6)	(27.6)	(16.5)	(44.1)
Movement in own shares	-	-	2.7	-	-	-	(0.8)	1.9	-	1.9
Share based payments	-	-	-	-	-	-	3.9	3.9	-	3.9
Deferred tax on share schemes	-	-	-	-	-	-	0.1	0.1	-	0.1
Balance as at 31 December 2021	**90.1**	**10.5**	**(0.5)**	**(105.7)**	**59.8**	**246.3**	**252.5**	**553.0**	**31.1**	**584.1**
(Loss)/profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(14.7)**	**(14.7)**	**22.0**	**7.3**
Other comprehensive income and expense for the year	**-**	**-**	**-**	**(16.2)**	**-**	**-**	**58.4**	**42.2**	**(0.7)**	**41.5**
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	**99.0**	**111.4**	**(0.1)**	**(121.9)**	**59.8**	**246.3**	**270.7**	**665.2**	**34.1**	**699.3**

Coats Group plc

Consolidated statement of cash flows

For the year ended 31 December	Note	2022 US$m	2021 US$m
Cash inflow from operating activities			
Cash generated from operations	**11 (a)**	**176.5**	189.0
Interest paid	**11 (b)**	**(25.5)**	(12.5)
Taxation paid	**11 (c)**	**(54.6)**	(47.9)
Net cash generated by operating activities		**96.4**	128.6
Cash outflow from investing activities			
Investment income	**11 (d)**	**0.5**	0.3
Net capital expenditure and financial investment	**11 (e)**	**(31.6)**	(30.3)
Acquisitions of businesses	**11 (f)**	**(271.2)**	-
Disposal of business	**11 (f)**	**(17.0)**	-
Net cash absorbed in investing activities		**(319.3)**	(30.0)
Cash inflow/(outflow) from financing activities			
Issue of ordinary shares	**8**	**109.8**	-
Purchase of own shares by Employee Benefit Trust		**(2.1)**	-
Dividends paid to equity shareholders		**(33.0)**	(27.4)
Dividends paid to non-controlling interests		**(18.3)**	(16.5)
Payment of lease liabilities		**(18.1)**	(22.1)
Borrowings settled on completion of acquisitions	**12**	**(62.5)**	-
Drawdown of term loan acquisition facility	**11 (g)**	**240.0**	-
Net increase in other borrowings		**79.2**	8.4
Net cash generated from/(absorbed in) financing activities		**295.0**	(57.6)
Net increase in cash and cash equivalents		**72.1**	41.0
Net cash and cash equivalents at beginning of the year		**90.8**	52.1
Foreign exchange losses on cash and cash equivalents		**(5.2)**	(2.3)
Net cash and cash equivalents at end of the year	**11 (g)**	**157.7**	90.8
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents		**72.1**	41.0
Drawdown of term loan acquisition facility	**11 (g)**	**(240.0)**	-
Net increase in other borrowings		**(79.2)**	(8.4)
Change in net debt resulting from cash flows (Free cash flow)	**14 (e)**	**(247.1)**	32.6
Net movement in lease liabilities during the year		**(13.0)**	(33.0)
Movement in fair value hedges		**5.2**	3.0
Other non-cash movements		**(1.0)**	(1.3)
Foreign exchange gains/(losses)		**2.2**	(0.8)
(Increase)/decrease in net debt		**(253.7)**	0.5
Net debt at the start of the year		**(246.1)**	(246.6)
Net debt at the end of the year	**11 (g)**	**(499.8)**	(246.1)

Notes to the consolidated financial information for the year ended 31 December 2022

1. Basis of preparation

The financial information set out in this statement does not constitute the Coats Group plc's statutory accounts for the years ended 31 December 2022 or 2021. The financial information for the year ended 31 December 2021 and 2022 is derived from the statutory accounts for 2021 (which has been delivered to the Registrar of Companies) and 2022 (which will be delivered to the Registrar of Companies following the AGM in May 2023). The auditors have reported on the 2021 and 2022 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

The Group's financial statements for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The accounting policies adopted by the Group are consistent with those set out in the 2021 Annual Report. A full list of accounting policies will be presented in the 2022 Annual Report. For details of new accounting policies applicable to the Group in 2022 and their impact please refer below.

Whilst the financial information included in this statement has been compiled in accordance with the recognition and measurement principles of applicable International Financial Reporting Standards ('IFRS'), this statement does not itself contain sufficient information to comply with IFRS. Full financial statements that comply with IFRS are included in the 2022 Annual Report; these will be available to shareholders in March 2023.

Critical accounting judgements and key sources of estimation uncertainty

The principal accounting policies adopted by the Group are set out in 2022 Annual Report. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible over time the actual results could differ from the estimates based on the assumptions and judgements used by the Group. Due to the size of the amounts involved, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the year and/or the carrying values of assets and liabilities in the consolidated financial statements:

In the course of preparing the financial statements, the below critical judgements and key sources of estimation uncertainty have had a significant effect on the amounts recognised in the financial statements for the years ended 31 December 2022. The critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2021, except for the critical accounting judgement relating to the sale of the Brazil and Argentina business in 2022 set out below.

Critical judgements in applying the Group's accounting policies

Exceptional and acquisition related items

Judgement is used to determine those items which should be separately disclosed as exceptional and acquisition related items to provide valuable additional information for users of the financial statements in understanding the Group's performance. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities. Please see note 3 for further details.

UK pension surplus recognition

The Group has recognised a net defined benefit pension surplus for the Coats UK Pension Scheme under IAS 19 of $180.7 million at 31 December 2022 (2021: $108.0 million). Judgement has been applied when interpreting the scheme rules to determine whether the Group can recognise this surplus asset amount on the statement of financial position or whether any economic benefits available as a refund are contingent upon factors beyond the Group's control and instead require an adjustment to be made to restrict the amount of the surplus recognised and reflect a liability arising from future committed contributions to the Coats UK Pension Scheme under IFRIC 14. The Group has determined that it has an unconditional right to a refund of the surplus assuming the gradual settlement of liabilities over time and therefore has recognised the full amount of the net defined benefit pension surplus. Please see note 15 for further details.

1. Basis of preparation (continued)

Critical judgements in applying the Group's accounting policies (continued)

In management's judgement the Brazil and Argentina business which was sold in May 2022 represents a separate major geographical area and therefore its results for 2022 have been presented as a discontinued operation with 2021 comparative amounts represented to reclassify the results of the Brazil and Argentina business from continuing operations to discontinued operations (see below for further details).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

UK retirement benefit obligations

The UK retirement benefit surplus recognised in the consolidated statement of financial position is the net of the fair value of scheme assets less the present values of the defined benefit obligations at the year end. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and inflation rates. Changes in any or all of these assumptions could materially change the employee benefit surplus recognised in the consolidated statement of financial position.

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

New IFRS accounting standards, interpretations and amendments adopted in the year

Except for the changes arising from the adoption of new accounting standards, interpretations and amendments (as detailed below), the same accounting policies, presentation and methods of computation have been followed in the financial information set out in this statement as applied in the Group's annual financial statements for the year ended 31 December 2021.

During the year, the Group adopted the following standards, interpretations and amendments:

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

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

Discontinued operations

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

Going concern

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

1. Basis of preparation (continued)

Going concern (continued)

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

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

- A base case scenario, aligned to the latest Group budget for 2023 as well as the Group's updated Medium Term Plan for 2024;
- A severe but plausible downside scenario, which assumes that the global economic environment is severely depressed over the assessment period; and
- A reverse stress test flexing sales to determine what circumstance would be required to either reduce headroom to nil on committed borrowing facilities or breach borrowing covenants, whichever occurred first.

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

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

Liquidity headroom

As at 31 December 2022 the Group's net debt excluding leases liabilities was $394.4 million (2021: $147.1 million). Following the completion of the new US Private Placement and repayment of the acquisition facility in February 2023, the Group's committed debt facilities total $835 million across its Banking and US Private Placement group, with a range of maturities from late 2024 through to 2030. As of 31 December 2022, based on the facilities in place at that date, the Group had around $250 million of headroom against these committed banking facilities.

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

Covenant testing

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

All banking covenants tests were met comfortably at 31 December 2022, with leverage of 1.4x and interest cover of 19.0x. The base case forecast indicates that banking covenants will be comfortably met throughout the assessment period. Under the severe but plausible downside scenario covenant compliance is still projected to be achieved throughout the assessment period, although with reduced but adequate headroom.

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 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 consolidated financial statements on the going concern basis.

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

1. Basis of preparation (continued)

Principal exchange rates

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

		2022	2021
Average	Sterling	**0.81**	0.73
	Euro	**0.95**	0.85
	Chinese Renminbi	**6.73**	6.45
	Indian Rupee	**78.59**	73.92
	Turkish Lira *	**16.57**	8.89
Period end	Sterling	**0.83**	0.74
	Euro	**0.93**	0.88
	Chinese Renminbi	**6.90**	6.35
	Indian Rupee	**82.72**	74.47
	Turkish Lira	**18.69**	13.32

* Cumulative inflation rates over a three-year period exceeded 100% in Turkey in Q2 2022 and is considered as hyperinflationary and as a result IAS 29 “Financial Reporting in Hyperinflationary Economies” has been applied for the first time for the year ended 31 December 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 the 31 December 2022 year end exchange rate. 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 the year end balance sheet date. The income statement of the Company’s subsidiary in Turkey is adjusted for inflation during the reporting period. Comparative amounts in the Group’s financial statements are not restated. The translation adjustment resulting from the initial application of IAS 29 of $5.0 million was recognised in equity and a net monetary gain of $1.9 million was recognised within finance income on non-monetary items held in Turkish Lira. The inflation rate used is the consumer price index published by the Turkish Statistical Institute, TurkStat. The movement in the price index for the year ended 31 December 2022 was 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) in deciding how to allocate resources and in assessing performance. The Group’s customers throughout the year ended 31 December 2022 were grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

Effective 1 January 2023 the Group’s new organisational structure and reporting structure will consist of three divisions: Apparel, Footwear and Performance Materials. The Group will report its financial results on this new segmental basis from half year 2023 and, from 1 January 2023, this will be 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 at December 2022, this internal reorganisation had not occurred with segment results grouped into two segments Apparel & Footwear and Performance Materials to which the CODM was provided financial information on which to assess performance and allocate resources.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

2. Segmental analysis (continued)

Segment revenue and results

Year ended 31 December 2022	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	**1,163.4**	**420.4**	**1,583.8**
Segment profit	**200.8**	**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**

Year ended 31 December 2021*	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	1,048.1	398.6	1,446.7
Segment profit	170.7	27.0	197.7
Exceptional and acquisition related items (note 3)			(19.5)
Operating profit			178.2
Share of profits of joint ventures			1.2
Finance income			0.4
Finance costs			(21.8)
Profit before taxation from continuing operations			158.0

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

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

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

2. Segmental analysis (continued)

Disaggregation of revenue

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

Year ended 31 December	2022 US$m	2021* US$m
Continuing operations		
Primary geographic markets		
Asia	**911.8**	849.7
Americas	**340.6**	313.8
EMEA	**331.4**	283.2
Total	**1,583.8**	1,446.7
Continuing operations		
Apparel & Footwear	**1,163.4**	1,048.1
Performance Materials	**420.4**	398.6
Total	**1,583.8**	1,446.7
Timing of revenue recognition		
Goods transferred at a point in time	**1,573.6**	1,435.6
Software solution services transferred over time	**10.2**	11.1
Total	**1,583.8**	1,446.7

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

Revenue from Texon and Rhenoflex totalling $87.2 million for the period to 31 December 2022 from their respective acquisition dates (see note 12) is included in the amount above for the Apparel & Footwear segment of which $34.4 million is included in Asia, $1.2 million is included in Americas and $51.6 million is included in EMEA.

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

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

3. Exceptional and acquisition related items

The Group's consolidated income statement format is presented 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 14.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, 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, are 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.

3. Exceptional and acquisition related items (continued)

Total exceptional and acquisition related items charged to profit before taxation for the year ended 31 December 2022 were $55.0 million (2021: $19.5 million) comprising exceptional items for the year ended 31 December 2022 of $31.2 million (2021: $3.7 million) and acquisition related items for the year ended 31 December 2022 of $23.8 million (2021: $15.8 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 during the year ended 31 December 2022 are set out below:

Year ended 31 December	2022 US$m	2021* US$m
Exceptional items:		
Strategic project costs:		
- Cost of sales	**9.9**	-
- Distribution costs	**3.8**	-
- Administrative costs	**18.7**	3.7
	32.4	3.7
Profit on sale of property:		
- Other operating income	**(1.2)**	-
Total exceptional items charged to operating profit from continuing operations	**31.2**	3.7

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 year a new facility was established in 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 $32.4 million were incurred during the year ended 31 December 2022 which included severance costs of $22.5 million, non-cash impairment charges of tangible fixed assets and right-of-use assets of $4.7 million and $5.2 million of legal, advisers, closure and related costs.

The Group accelerated the implementation of this strategic project during the year ended 31 December 2022, delivering in-year efficiencies in 2022 ahead of the Group's expectations. In addition, the Group expect to deliver total savings of $70 million by 2024, a significant increase on the $50 million the Group previously expected to deliver. The additional $20 million savings will primarily arise from the transformation of Asian operations, in particular in China and India.

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

Profit from sale of property - During the year ended 31 December 2022 a profit of $1.2 million was made from the sale of a property in Poland as part of the above strategic project.

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

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

3. Exceptional and acquisition related items (continued)

Acquisition related items

Acquisition related items are set out below:

Year ended 31 December	2022 US$m	2021 US$m
Acquisition related items:		
Administrative expenses:		
Acquisition transaction costs	**11.9**	12.4
Amortisation of acquired intangible assets	**10.8**	3.3
Acquisition earnouts and contingent consideration	**-**	0.1
	22.7	15.8
Finance costs:		
Acquisition transaction costs	**1.1**	-
Total acquisition related items before taxation	**23.8**	15.8

Acquisition transaction costs charged to administrative expenses during the year ended 31 December 2022 of $11.9 million 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 relate to the $240.0 million term loan acquisition facility used to finance the acquisition of Texon (see note 12).

During the year ended 31 December 2021, the Group pursed several acquisition opportunities and as a result incurred transaction costs of $12.4 million.

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 years 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 operating 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

Year ended 31 December	2022 US$m	2021* US$m
Income from investments	**0.1**	0.1
Net monetary gain arising from hyperinflation accounting (see note 1)	**1.9**	-
Other interest receivable and similar income	**0.6**	0.3
	2.6	0.4

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

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

5. Finance costs

Year ended 31 December	**2022** **US$m**	2021* US$m
Interest on bank and other borrowings	**18.9**	10.4
Interest expense on lease liabilities	**4.9**	5.2
Net interest on pension scheme assets and liabilities	**0.5**	4.1
Other finance costs including unrealised gains and losses on foreign exchange contracts	**9.1**	2.1
	33.4	21.8

Other finance costs for the year ended 31 December 2022 include 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 (see note 3).

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

6. Tax on profit from continuing operations

Year ended 31 December	**2022** **US$m**	2021* US$m
UK Corporation tax at 19% (2021: 19%)	**-**	-
Overseas tax charge	**(56.2)**	(55.0)
Deferred tax (charge)/credit	**(0.2)**	1.9
Total tax charge	**(56.4)**	(53.1)

The overseas tax charge includes withholding tax charges and other taxes not based on profits for the year ended 31 December 2022 of $13.3 million (2021: $12.1 million).

For the year ended 31 December 2022 the tax credit in respect of exceptional and acquisition related items was $3.7 million (2021: $0.2 million). This includes exceptional tax credits of $2.0 million relating to exceptional strategic projects and $1.7 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 during the year ended 31 December 2022 (refer to note 12).

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

7. Earnings/(loss) per share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of Ordinary Shares in issue during the year, 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. The Group has two classes of dilutive potential Ordinary Shares: those shares relating to awards under the Group Deferred Bonus Plan which have been awarded but not yet reached the end of the three year retention period and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

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

Year Ended 31 December	**2022** **US$m**	2021* US$m
Profit from continuing operations attributable to equity shareholders	**72.9**	85.2
(Loss)/profit from continuing and discontinued operations attributable to equity shareholders	**(14.7)**	88.9

Profit from continuing operations attributable to equity shareholders for the year ended 31 December 2022 of $72.9 million (2021: $85.2 million) comprises the profit from continuing operations for the year ended 31 December 2022 of $94.9 million (2021: $104.9 million) less non-controlling interests for the year ended 31 December 2022 of $22.0 million (2021: $19.7 million) as reported in the income statement.

Year Ended 31 December	**2022** **Number of shares m**	2021 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,516.0**	1,457.1
Adjustment for share options and LTIP awards	**9.3**	5.9
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,525.3**	1,463.0

Year Ended 31 December	**2022** **cents**	2021* cents
Continuing operations:		
Basic earnings per ordinary share	**4.80**	5.84
Diluted earnings per ordinary share	**4.77**	5.82
Continuing and discontinued operations:		
Basic (loss)/earnings per ordinary share	**(0.98)**	6.10
Diluted (loss)/earnings per ordinary share	**(0.97)**	6.07

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

8. Issued share capital

During the year ended 31 December 2022 the Company issued 145,240,000 Ordinary shares of 5p each in connection with an equity placing as set out below. The par value of the shares issued was $8.9 million. The proceeds raised net of costs were $109.8 million and were used to fund the acquisition of Rhenoflex GmbH (see note 12). During the year ended 31 December 2021 the Company issued 493,113 Ordinary shares of 5p each following the exercise of awards under the Group’s share based incentive plans.

	Number of Shares	**US$m**
At 1 January 2022	1,452,570,385	90.1
Issue of ordinary shares	145,240,000	8.9
At 31 December 2022	**1,597,810,385**	**99.0**

The own shares reserve of $0.1 million at 31 December 2022 (2021: $0.5 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 31 December 2022 was 805,501 (2021: 2,020,306).

9. Dividends

Year Ended 31 December	**2022** **US$m**	2021 US$m
2022 interim dividend paid – 0.70 cents per share	**11.1**	-
2021 final dividend paid – 1.50 cents per share	**21.8**	-
2021 interim dividend paid – 0.61 cents per share	**-**	8.8
2020 final dividend paid – 1.30 cents per share	**-**	18.8
	32.9	27.6

The proposed final dividend of 1.73 cents per ordinary share for the year ended 31 December 2022 is not recognised as a liability in the consolidated statement of financial position in line with the requirements of IAS 10 Events after the Reporting Period and, subject to shareholder approval, will be paid on 25 May 2023 to ordinary shareholders on the register on 28 April 2023, with an ex-dividend date of 27 April 2023.

10. US environmental matters

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

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

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

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

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

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

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.

10. US environmental matters (continued)

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 31 December 2022, the remaining provision, taking into account insurance reimbursement, was $9.2 million (2021: $11.2 million). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA process and OCC's lawsuit, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

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 work 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. 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.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

11. Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year Ended 31 December	2022 US$m	2021* US$m
Operating profit	**181.0**	178.2
Depreciation of owned property, plant and equipment	**26.5**	27.3
Deprecation of right-of-use assets	**19.4**	19.4
Amortisation of intangible assets	**12.6**	6.0
Decrease/(increase) in inventories	**43.6**	(66.8)
Decrease/(increase) in debtors	**10.4**	(38.2)
(Decrease)/increase in creditors	**(76.2)**	91.5
Provisions and pension movements	**(41.6)**	(34.5)
Foreign exchange and other non-cash movements	**8.8**	13.0
Discontinued operations	**(8.0)**	(6.9)
Cash generated from operations	**176.5**	189.0

b) Interest paid

Year Ended 31 December	2022 US$m	2021* US$m
Interest paid	**(24.8)**	(11.0)
Discontinued operations	**(0.7)**	(1.5)
	(25.5)	(12.5)

c) Taxation paid

Year Ended 31 December	2022 US$m	2021* US$m
Overseas tax paid	**(54.6)**	(47.8)
Discontinued operations	**-**	(0.1)
	(54.6)	(47.9)

d) Investment income

Year Ended 31 December	2022 US$m	2021 US$m
Dividends received from joint ventures	**0.5**	0.3

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

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

e) Capital expenditure and financial investment

Year Ended 31 December	**2022 US$m**	2021* US$m
Purchase of property, plant and equipment and intangible assets	**(33.8)**	(30.5)
(Purchase)/sale of other equity investments	**(0.1)**	0.1
Disposal of property, plant and equipment	**2.8**	0.8
Discontinued operations	**(0.5)**	(0.7)
	(31.6)	(30.3)

f) Acquisitions and disposals of businesses

Year Ended 31 December	**2022 US$m**	2021 US$m
Acquisition of businesses (note 12)	**(271.2)**	-
Disposal of business (note 13)	**(17.0)**	-
	(288.2)	-

g) Summary of net debt

Year Ended 31 December	**2022 US$m**	2021 US$m
Cash and cash equivalents	**172.4**	107.2
Bank overdrafts	**(14.7)**	(16.4)
Net cash and cash equivalents	**157.7**	90.8
Borrowings	**(552.1)**	(237.9)
Net debt excluding lease liabilities	**(394.4)**	(147.1)
Lease liabilities	**(105.4)**	(99.0)
Total net debt	**(499.8)**	(246.1)

On 20 July 2022, the Group fully drew down on a new $240 million term loan acquisition facility to fund the purchase of Texon (see note 12). This facility was to mature in July 2024, and the Group had an option to extend this term by a further nine months to May 2025.

In February 2023, the Group completed the refinancing of this acquisition facility 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.

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 31 December 2022 for covenant purposes was $399.9 million (31 December 2021: $148.0 million).

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

12. Acquisitions

The Group completed two acquisitions during the year 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 new $240.0 million term loan acquisition facility and the Rhenoflex transaction was predominately financed through an equity raise of $109.8 million net of costs.

These acquisitions have been 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 has been undertaken with assistance provided by external valuation specialists.

In the provisional accounting, adjustments are made to the book values of the net assets of the companies acquired to reflect their provisional fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included. As part of this exercise, accounting policies are aligned with those of the Group and as the acquisitions were made in the second half of the year and given their global footprint, the fair values presented below are provisional as these assessments will be completed within 12 months from each relevant acquisition date. The provisional fair values of the identifiable assets and liabilities of Texon and Rhenoflex as at their respective acquisition dates were as follows:

	Provisional fair value recognised on acquisition of Texon	Provisional fair value recognised on acquisition of Rhenoflex	Provisional Total
	US$m	US$m	US$m
Assets			
Acquired intangible assets			
- Customer relationships	107.1	51.7	158.8
- Brands and trade names	26.7	14.2	40.9
- Technology	26.3	14.2	40.5
	160.1	80.1	240.2
Computer software	0.1	0.5	0.6
Property, plant and equipment	14.4	9.3	23.7
Right-of-use-assets	4.9	4.3	9.2
Investments in joint ventures	0.7	-	0.7
Deferred tax assets	2.6	0.7	3.3
Inventories	20.6	20.3	40.9
Trade and other receivables	26.0	13.8	39.8
Cash and cash equivalents	16.8	4.5	21.3
	246.2	133.5	379.7
Liabilities			
Trade and other payables	(28.8)	(12.7)	(41.5)
Deferred tax liabilities	(28.5)	(26.3)	(54.8)
Borrowings	(24.4)	(38.1)	(62.5)
Lease liabilities	(4.9)	(4.3)	(9.2)
Retirement benefit obligations	(7.6)	(2.7)	(10.3)
Provisions	(5.3)	(2.1)	(7.4)
	(99.5)	(86.2)	(185.7)
Total identifiable net assets acquired at fair value	**146.7**	**47.3**	**194.0**
Goodwill recognised on acquisition (provisional)	64.3	34.2	98.5
Purchase consideration paid	**211.0**	**81.5**	**292.5**

12. Acquisitions (continued)

The fair value assessed for intangible customer relationship assets was $107.1 million for Texon and $51.7 million for Rhenoflex. In both cases this will be amortised over a fifteen-year useful economic life. As fair value level one observable market prices are not available for these assets, management engaged external professional valuation advisors to assist in identifying and valuing these assets The excess earnings method was used to value these customer relationships which considers the use of other assets in the generation of projected cash flows to isolate the economic benefit generated by the relationships.

The fair value assessed for brands and trade names was $26.7 million for Texon and $14.2 million for Rhenoflex and for technology was $26.3 million for Texon and $14.2 million for Rhenoflex. The relief from royalty method was used to value both the technology and the trade names which will be amortised over a useful economic life of ten years. The relief from royalty method looks at the savings from owning the trade name and technology compared to paying royalties for their use based on comparable market royalty rates.

The net deferred tax position reflected adjustments related to the deferred tax impact of the fair value uplifts on acquired intangible assets and other fair value adjustments at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that were enacted or substantively enacted. Deferred tax liabilities recognised as a result of the acquisition of Texon and Rhenoflex total $54.8 million. The Group's total deferred tax liabilities at 31 December 2022 were $65.3 million (2021: $6.8 million).

Fair value adjustments were also made to uplift property, plant and equipment by a total of $3.5 million for Texon. Other adjustments were made to decrease pension obligations on an IAS 19 basis by $2.1 million and $0.7 million at the acquisition dates for Texon and Rhenoflex respectively. Due to their contractual dates, the fair value of receivables acquired approximated to the gross contractual amounts receivable. There was no material expected credit losses for either acquisition and these receivables have materiality been settled between the respective acquisition dates and the 31 December 2022 year-end date. There are no material contingent liabilities recognised in accordance with paragraph 23 of IFRS 3.

Provisional goodwill of $64.3 million for Texon and $34.2 million for Rhenoflex represents the premium attributable to purchasing separately established businesses with assembled workforces, opportunities for synergies and exploitation of the general technological capabilities and knowledge base of each company. Goodwill is not expected to be deductible for tax purposes.

Goodwill is not amortised but tested annually for impairment. For the purposes of annual impairment testing the combined provisional goodwill has initially been allocated to a new Structural Footwear Components cash generating unit. This initial allocation will be reviewed during 2023 following further integration of Structural Footwear Components with the pre-existing Coats footwear and thread business.

Provisional goodwill and intangible assets acquired for Texon and Rhenoflex totalled $338.7 million. From their respective acquisition dates to 31 December 2022, amortisation charges for acquired intangible assets amounted to $5.6 million for Texon and $2.1 million for Rhenoflex.

From their acquisition dates, the contribution to revenues in the year to 31 December 2022 was $57.2 million for Texon and $30.0 million for Rhenoflex. The contribution to operating profit excluding exceptional items and amortisation of acquired intangible assets in the year to 31 December 2022 was $5.8 million for Texon and $3.4 million for Rhenoflex in the year to 31 December 2022. The loss after tax in the year to 31 December 2022 (after exceptional items and amortisation of acquired intangible assets) was $1.9 million for Texon and a profit of $0.5 million for Rhenoflex.

If the acquisitions had taken effect at the beginning of the reporting period (1 January 2022), the Group's revenues for the year ended 31 December 2022 would have been $85.9 million higher for Texon and $60.0 million higher for Rhenoflex and the Group's profit after tax would have been $2.9 million higher for Texon and $3.1 million higher for Rhenoflex, based on management accounts.

Transaction costs totalling $12.6 million relating to the acquisitions of Texon ($8.6 million) and Rhenoflex ($4.0 million) have been expensed and are included in the consolidated income statement (see note 3). Transaction costs of $11.5 million have been charged to administrative expenses and $1.1 million has been charged to finance costs relating to the $240.0 million Texon term loan acquisition facility.

12. Acquisitions (continued)

Transaction costs paid in the year ended 31 December 2022 relating to these acquisitions was $12.3 million and are included in cash flows absorbed in operating activities in the consolidated cash flow statement. In addition costs of $2.8 million were incurred in connection with the equity raise to finance the acquisition of Rhenoflex which have been charged to the share premium reserve.

The purchase consideration was paid in cash with the amounts included in the statement of consolidated cash reconciled 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 is 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 14(e)) comprising the total cash outflow on the respective acquisition dates of $333.7 million plus transaction costs paid of $12.3 million.

13. Discontinued operations

Sale of Brazil and Argentina

On 10 May 2022 the Group announced the agreement to sell its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The sale was completed on 26 May 2022, the date which control passed to the acquirer. Under the terms of the disposal, the Group paid $15.0 million to Reelpar S.A. to support restructuring of the business. During the five years following the completion date earn-out payments are payable to the Group in the event that certain operational cash flow targets are met by the Brazil and Argentina business. No earn-out payments have been recognised by the Group as at 31 December 2022.

13. Discontinued operations (continued)

a) Discontinued operations

The results of the discontinued operations are presented below:

Year Ended 31 December	2022 US$m	2021* US$m
Revenue	**26.3**	66.8
Cost of sales	**(22.6)**	(49.8)
Gross profit	**3.7**	17.0
Distribution costs	**(3.8)**	(10.2)
Administrative expenses	**(3.3)**	(5.6)
Operating (loss)/profit	**(3.4)**	1.2
Investment income	**-**	4.2
Finance costs	**(0.3)**	(0.4)
(Loss)/profit before taxation	**(3.7)**	5.0
Taxation	**-**	(1.3)
(Loss)/profit from discontinued operations for the year	**(3.7)**	3.7
Loss on disposal (note 13 (b))	**(68.9)**	-
Exchange loss transferred to income statement on disposal	**(15.0)**	-
Total (loss)/profit from discontinued operations	**(87.6)**	3.7

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

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

Exceptional items – discontinued operations

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

Year Ended 31 December	2022 US$m	2021* US$m
Brazil indirect taxes:		
- Cost of sales	**-**	5.8
- Finance income	**-**	4.2
- Taxation	**-**	(1.1)
Loss on disposal (note 13(b))	**(68.9)**	-
Exchange loss transferred to income statement on disposal	**(15.0)**	-
Total exceptional items – discontinued operations	**(83.9)**	8.9

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

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

13. Discontinued operations (continued)

a) Discontinued operations (continued)

As a result, estimated refunds were recognised as exceptional items in the results for the year ended 31 December 2021 of $5.8 million which was included in cost of sales and in addition exceptional interest income was recognised year ended 31 December 2021 of $4.2 million. The exceptional tax charge for the year ended 31 December 2021 was $1.1 million. These refunds dated back to 2003 and the estimated tax credit amounts were expected to be utilised over a period of approximately six years, once the business has received a favourable Court ruling.

(Loss)/earnings per ordinary share from discontinued operations

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

Year Ended 31 December	**2022** **Cents**	2021* Cents
(Loss)/earnings per ordinary share from discontinued operations:		
Basic (loss)/earnings per ordinary share	**(5.78)**	0.26
Diluted (loss)/earnings per ordinary share	**(5.74)**	0.25

Cash flows from discontinued operations

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

Year Ended 31 December	**2022** **US$m**	2021* US$m
Net cash outflow from operating activities	**(8.7)**	(8.5)
Net cash outflow from investing activities	**(0.5)**	(0.7)
Net cash flows from discontinued operations	**(9.2)**	(9.2)

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

Notes to the consolidated financial information for the year ended 31 December 2022 (continued)

13. Discontinued operations (continued)

b) Loss on disposal

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

	US$m
Property, plant and equipment	10.8
Inventories	26.9
Trade and other receivables	35.7
Cash and cash equivalents	0.7
Total assets	**74.1**
Trade and other payables	(18.1)
Current income tax liabilities	(1.2)
Bank overdrafts	(2.5)
Retirement benefit obligations	(2.0)
Provisions	(0.9)
Total liabilities	**(24.7)**
Net assets disposed	**49.4**
Consideration paid	15.0
Disposal costs	4.5
Exceptional loss on disposal – discontinued operations	**68.9**

The consideration paid on the date of disposal was $15.0 million and net of cash and cash equivalents and bank overdrafts disposed was $13.2 million. Disposal costs of $3.8 million were paid in the year ended 31 December 2022 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.

14. Alternative performance measures

The financial information in this statement contains both statutory measures and alternative performance measures which, in management's view, provide valuable additional information for users of the financial statements in understanding the Group's performance.

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

Notes to the financial information for the year ended 31 December 2022 (continued)

14. Alternative performance measures (continued)

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

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

- 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 year 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).

Year Ended 31 December	2022 US$m	2021* US$m	% Growth
Revenue from continuing operations	**1,583.8**	1,446.7	9%
Constant currency adjustment	**-**	(85.3)	
Revenue on a CER basis	**1,583.8**	1,361.4	16%
Revenue from acquisitions[1]	**(87.2)**	-	
Organic revenue on a CER basis	**1,496.6**	1,361.4	**10%**

Year Ended 31 December	2022 US$m	2021* US$m	% Growth
Operating profit from continuing operations[2]	**181.0**	178.2	2%
Exceptional and acquisition related items (note 3)	**53.9**	19.5	
Adjusted operating profit from continuing operations	**234.9**	197.7	19%
Constant currency adjustment	**-**	(12.3)	
Adjusted operating profit on a CER basis	**234.9**	185.4	27%
Operating profit from acquisitions[1]	**(9.2)**	-	
Organic adjusted operating profit on a CER basis	**225.7**	185.4	**22%**

[1] Revenue and operating profit from acquisitions relates to the acquisitions of Texon and Rhenoflex (see note 12).

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

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

14. 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 from continuing operations 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:

Year Ended 31 December	**2022** **US$m**	2021* US$m
Profit before taxation from continuing operations	**151.3**	158.0
Share of profit of joint ventures	**(1.1)**	(1.2)
Finance income (note 4)	**(2.6)**	(0.4)
Finance costs (note 5)	**33.4**	21.8
Operating profit from continuing operations[1]	**181.0**	178.2
Exceptional and acquisition related items (note 3)	**53.9**	19.5
Adjusted operating profit from continuing operations	**234.9**	197.7
Depreciation of owned property, plant and equipment	**26.5**	27.3
Amortisation of intangible assets	**1.8**	2.7
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**263.2**	227.7
Depreciation of right-of-use assets	**19.4**	19.4
Adjusted EBITDA	**282.6**	247.1

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

Net debt including lease liabilities under IFRS 16 at 31 December 2022 was $499.8 million (2021: $246.1 million).

This gives a leverage ratio of net debt including lease liabilities to adjusted EBITDA at 31 December 2022 of 1.8 (2021: 1.0).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2022 was $394.4 million (2021: $147.1 million).

This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2022 of 1.5 (2021: 0.6).

The Group's proforma leverage on a pre-IFRS 16 basis at 31 December 2022 is 1.4 after adjusting EBITDA to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the reporting period (1 January 2022).

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

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

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.

14. Alternative performance measures (continued)

c) Adjusted effective tax rate (continued)

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 shown below and, in management's view, were this not adjusted it would distort the alternative performance measure. This is consistent with how the Group monitors and manages the effective tax rate.

Year Ended 31 December	**2022** **US$m**	2021* US$m
Profit before taxation from continuing operations	**151.3**	158.0
Exceptional and acquisition related items (note 3)	**55.0**	19.5
Net interest on pension scheme assets and liabilities	**0.5**	4.1
Adjusted profit before taxation from continuing operations	**206.8**	181.6
Taxation charge from continuing operations	**56.4**	53.1
Tax credit in respect of exceptional and acquisition related items	**3.7**	0.2
Tax credit in respect of net interest on pension scheme assets and liabilities	**0.5**	0.5
Adjusted tax charge from continuing operations	**60.6**	53.8
Adjusted effective tax rate	**29%**	30%

d) Adjusted earnings per share

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

Year Ended 31 December	**2022** **US$m**	2021* US$m
Profit from continuing operations	**94.9**	104.9
Non-controlling interests	**(22.0)**	(19.7)
Profit from continuing operations attributable to equity shareholders	**72.9**	85.2
Exceptional and acquisition related items net of non-controlling interests (note 3)	**54.7**	19.5
Tax credit in respect of exceptional and acquisition related items	**(3.7)**	(0.2)
Adjusted profit from continuing operations	**123.9**	104.5
Weighted average number of Ordinary Shares	**1,515,999,205**	1,457,076,765
Adjusted earnings per share (cents)	**8.17**	7.17
Adjusted earnings per share (growth %)	**14%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2022 is 1,515,999,205 (2021: 1,457,076,765), the same as that used for basic earnings per ordinary share from continuing operations (see note 7).

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

14. Alternative performance measures (continued)

e) Adjusted free cash flow

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

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

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

Year Ended 31 December	**2022 US$m**	2021* US$m
Change in net debt resulting from cash flows (free cash flow)	**(247.1)**	32.6
Acquisition of businesses (note 12)	**346.0**	-
Disposal of business (note 13)	**17.0**	-
Net cash outflow from discontinued operations	**9.2**	9.2
Payments to UK pension scheme	**42.7**	42.4
Net cash flows in respect of other exceptional and acquisition related items	**22.5**	12.2
Issue of ordinary shares (note 8)	**(109.8)**	-
Purchase of own shares by Employee Benefit Trust	**2.1**	-
Dividends paid to equity shareholders	**33.0**	27.4
Tax inflow in respect of adjusted cash flow items	**(1.4)**	-
Adjusted free cash flow	**114.2**	123.8

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

Notes to the financial information for the year ended 31 December 2022 (continued)

14. Alternative performance measures (continued)

f) Adjusted return on capital employed

Adjusted return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items adjusted for the full year impact of acquisitions divided by period end capital employed as set out below. Adjusted ROCE measures the ability of the Group's assets to deliver returns.

Year Ended 31 December	**2022 US$m**	2021* US$m
Operating profit from continuing operations before exceptional and acquisition related items adjusted for full year impact of acquisitions [1]	**250.9**	197.7
Non-current assets		
Acquired intangible assets	**366.6**	36.8
Property, plant and equipment	**256.3**	235.1
Right-of-use assets	**96.5**	91.6
Trade and other receivables	**20.2**	20.4
Current assets		
Inventories	**211.4**	229.6
Trade and other receivables	**286.3**	279.8
Current liabilities		
Trade and other payables	**(278.4)**	(328.9)
Lease liabilities	**(19.0)**	(17.8)
Non-current liabilities		
Trade and other payables	**(26.3)**	(24.2)
Lease liabilities	**(86.4)**	(81.2)
Capital employed	**827.2**	441.2
Adjusted ROCE	**30%**	45%

[1] Operating profit from continuing operations before exceptional and acquisition related items for the year ended 31 December 2022 has been adjusted to include Texon and Rhenoflex as if the acquisitions had taken effect at the beginning of the reporting period (1 January 2022). Including full year proforma 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 note 3 for details of exceptional and acquisition related items.

* Represented to reflect the results of the Brazil and Argentina business as a discontinued operation (see note 1). Amounts for non-current assets, current assets, current liabilities and non-current liabilities at 31 December 2021 exclude the discontinued Brazil and Argentina business.

15. Retirement and other post-employment benefit arrangements

The net surplus for the Group's retirement and other post-employment defined benefit arrangements (UK and other Group schemes), on an IAS 19 basis, was $105.4 million as at 31 December 2022 (2021: $21.1 million). The increase in the net surplus during the year ended 31 December 2022 is primarily due to movements on the UK scheme.

Notes to the financial information for the year ended 31 December 2022 (continued)

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

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 31 December 2022 of $180.7 million (31 December 2021: $108.0 million). The increase in the surplus during the year ended 31 December 2022 of $72.7 million predominantly relates to net actuarial gains of $44.9 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) and employer contributions (excluding administrative expenses) of $37.9 million. This was offset by foreign exchange translation movements.

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

	31 December 2022		31 December 2021	
	+0.25%	**-0.25%**	+0.25%	-0.25%
	US$m	**US$m**	US$m	US$m
Discount rate	**(51.4)**	**53.9**	(108.8)	115.0
Inflation rate	**28.0**	**(30.1)**	74.6	(72.0)

An increase of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities decreasing by $192.3 million (31 December 2021: $401.4 million). A decrease of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities increasing by $232.2 million (31 December 2021: $502.7 million). The above sensitivity analysis (on an IAS 19 basis) considers the impact on the scheme liabilities only and excludes any impacts on scheme assets from changes in discount and inflation rates. As noted in the 2022 Annual Report, the Coats UK Pension Scheme is currently over 90% hedged against interest rate and inflation rate movements. 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 $59.8 million (31 December 2021: $105.8 million).

In December 2022, the trustee board of the Coats UK Pension Scheme purchased a circa £350 million bulk annuity policy from Aviva, which insures all the benefits payable in respect of around 3,700 pensioner members (a “pensioner buy-in”). This policy will see all financial and demographic risks, including those related to longevity, covered for approximately 20% of Scheme members. The bulk annuity policy is an asset of the Scheme. Under IAS 19 it is deemed a qualifying insurance policy, due to it exactly matching the amount and timing of benefits payable by the Scheme to the covered members. Under IAS 19, the value of the bulk annuity policy is therefore set equal to the corresponding IAS 19 liabilities for covered members; not the premium paid. Given the favourable pricing at the point of transaction, the pensioner buy-in has no material impact on the Group’s balance sheet or future income statements on an IAS 19 basis.

16. Post balance sheet events

On 20 February 2023 the Group announced completion of a $250 million issue of US Private Placement notes (see note 11 (g) for further details).

17. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2022 and up to the date of this report:

D Gosnell OBE	
R Sharma	
N Bull	
J Callaway	
A Fahy	(Resigned 18 May 2022)
H Lawrence	(Appointed 7 November 2022)
H Lu	
S Murray	(Appointed 1 September 2022)
F Philip	
J Sigurdsson	

On behalf of the Board

D Gosnell
Chairman
1 March 2023

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