5 March 2020

Coats Group plc

2019 Full Year Results

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, announces its audited Full Year Results for the year ended 31 December 2019.

Continuing operations [3]	2019	2018	Change	CER change [1]	Organic change [1]
Adjusted [1]					
Operating profit	$198m	$195m	2%	5%	6%
Operating margin	14.3%	13.8%	50bps	50bps	60bps
Basic earnings per share	7.0c	6.9c	1%		
Free cash flow	$107m	$96m	11%		
Return on capital employed (ROCE)	42.3%	42.6%	(30)bps		
Reported [2,3]					
Revenue	$1,389m	$1,415m	(2)%	1%	1%
Operating profit	$191m	$147m	30%	34%	35%
Basic earnings per share	6.7c	3.9c	73%		
Net cash generated by operating activities	$144m	$102m	41%		
Net debt (incl. IFRS 16 [4])	$215m	$223m	n/a		
Full year dividend per share	1.85c	1.66c	11%		

Financial highlights

- Revenue growth of 1% on an CER basis in line with November trading update; 2% decline on a reported basis as a result of H1 foreign exchange translation headwinds.
  - Apparel & Footwear CER revenue growth of 1.0%; core thread sales up 2.1% driven by on-going share gains;
  - Performance Materials CER revenue growth of 1.4%; growth in Personal Protection, and Telecoms and Energy, offset by Transportation.
- Adjusted operating profit up 5% on a CER basis to $198 million; adjusted operating margin up 50bps to 14.3%.
- Adjusted EPS up 1% to 7.0 cents; 200bps reduction in underlying effective tax rate[5] to 29%, offset by certain non-operational one-offs (e.g. initial impact of IFRS16 (leases) and higher year-on-year pension finance charge).
- Adjusted free cash flow of $107 million reflecting strong cash conversion; supporting 11% growth in dividend.
- Closing net debt (excl. IFRS 16) of $150 million; net debt (incl. IFRS 16) of $215 million (0.9x leverage).
- Reported operating profit of $191 million (up 30%) and basic EPS of 6.7 cents (up 73%); continued strategic progress and significantly lower net exceptional costs in the year.

Strategic highlights

- Connecting for Growth two-year transformation programme now concluded;
  - Cost actions completed ahead of original expectations and faster than scheduled; final two-year net savings of $28 million; exceptional reorganisation charge $31 million;
  - On-going focus now on driving reinvestments in innovation and digital; three innovation hubs now open; $16 million incremental sales from innovation in 2019.

- Sustainability: significant progress towards 2022 targets; dedicated ESG Investor Event hosted in London.
- Acquisition of Pharr High Performance Yarns, announced in November 2019, now completed; combination with existing Personal Protection business delivers significant scale and market leadership in attractive growth market.
- Balance Sheet in a strong position to drive ongoing operational growth initiatives, fund further value-added M&A in key strategic focus areas, and deliver shareholder returns.

Commenting on the Full Year Results Rajiv Sharma, Group Chief Executive, said:

'I am pleased to report a year of continued growth in profits and cash, despite a market backdrop where we saw lower than normal growth in retail sales of Apparel and Footwear, and temporary softness in some of the industrial end-markets that we serve in Performance Materials. In Apparel and Footwear, this meant taking further market share by delivering high quality products with world class levels of speed, customer service and support. In Performance Materials, we delivered innovative thread and yarn-based solutions that solve our customers' technical problems across a variety of industries.

'During the year, we also made significant progress on our strategic priorities of M&A, Digital, Innovation and Sustainability. The acquisition of Pharr High Performance in North America makes Coats a market leader in Personal Protection yarns. ESG and Sustainability are key differentiators for Coats and a source of competitive advantage.

'At an operational level we continue to grow margins through self-help programmes and cost management, whilst continuing to recover raw material cost increases. Cash delivery was once again strong which provides us with the funds to invest selectively in the most attractive organic and inorganic opportunities. Over the last two years the delivery of our Connecting for Growth transformation programme has resulted in less complexity, lower cost, more organisational agility and funds to invest in growth. The organisation is now fitter, faster, more agile and able to respond rapidly to fast-paced changes in the market.

'We enter 2020 as a lean and agile organisation, having delivered significant positive strategic change through 2019. We are well placed to take advantage of the fast-paced and rapidly changing modern world, by capturing the many opportunities this presents to Coats as a truly global business.

'Absent a material impact from Covid-19, Coats remains well placed to execute our strategy and deliver another year of growth in 2020.'

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) figures are 2018 results restated at 2019 exchange rates. Organic figures are results on a CER basis and excluding contributions from bolt-on acquisitions (Threadsol). Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.*
2 *Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.*
3 *All figures on a continuing basis (i.e. exclude North America Crafts which is presented as a discontinued operation), unless otherwise stated.*
4 *IFRS 16 (leases) applied on a prospective basis from 1 Jan 2019; 2018 as previously reported, and excludes impacts of IFRS 16.*
5 *Underlying effective tax rate removes the tax impact of exceptional and acquisition related items and net interest on pension scheme assets and liabilities.*

Conference call

Coats Management will present its full year results in a webcast / conference call at 0830 GMT today (5 March 2020). The webcast can be accessed via www.coats.com/investors/fy2019. The conference call can be accessed by dialling +44 (0)20 3936 2999 and using participant access code ’35 90 73’. The webcast will also be made available in archive form on www.coats.com.

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About Coats Group plc

Coats is the world’s leading industrial thread company. At home in some 50 countries, Coats has a workforce of 17,000 people across six continents. Revenues in 2019 were US$1.4bn. Coats’ pioneering history and innovative culture ensure the company continues leading the way around the world. It provides complementary and value added products, services and software solutions to the apparel and footwear industries. It applies innovative techniques to develop high technology Performance Materials threads, yarns and fabrics in areas such as Transportation, Telecommunications and Energy, and Personal Protection. Headquartered in the UK, Coats is a FTSE 250 company, a constituent of the FTSE4Good Index Series and a participant in the UN Global Compact. To find out more about Coats visit www.coats.com.

Operating review

	2019	2018	Inc / (dec)	2018 CER [1]	CER [1] inc/(dec)	Organic [1] inc/(dec)
	$m	$m	%	$m	%	%
Revenue [2]						
By segment						
Apparel and Footwear [3]	1,063	1,083	(2)%	1,053	1%	1%
Performance Materials	326	332	(2)%	321	1%	1%
Total	**1,389**	**1,415**	**(2)%**	**1,374**	**1%**	**1%**
By region						
Asia	800	791	1%	777	3%	3%
Americas [3]	323	349	(7)%	341	(5)%	(5)%
EMEA	266	275	(3)%	257	4%	4%
Total	**1,389**	**1,415**	**(2)%**	**1,374**	**1%**	**1%**
Adjusted operating profit [2,4]						
By segment						
Apparel and Footwear [3]	156	148	6%	145	8%	9%
Performance Materials	42	47	(11)%	44	(6)%	(6)%
Total adjusted operating profit	**198**	**195**	**2%**	**189**	**5%**	**6%**
Exceptional and acquisition related items	(7)	(48)	n/a			
Operating profit	**191**	**147**	**30%**			
Adjusted operating margin [2,4]						
By segment						
Apparel and Footwear [3]	14.7%	13.7%	100bps	13.7%	100bps	110bps
Performance Materials	12.8%	14.1%	(130)bps	13.8%	(100)bps	(100)bps
Total	**14.3%**	**13.8%**	**50bps**	**13.8%**	**50bps**	**60bps**

1 *2018 figures at 2019 exchange rates. Organic on a CER basis excluding contributions from bolt-on acquisitions (ThreadSol).*
2 *Includes contribution from bolt-on acquisitions made during the period.*
3 *Includes Latin America Crafts.*
4 *On an adjusted basis which excludes exceptional and acquisition-related items. Segmental split reflects new operating segments of Apparel and Footwear and Performance Materials.*

Revenues

Group revenues increased 1% in the year on an organic and CER basis. On a reported basis, Group revenues reduced 2% as a result of the previously flagged year-on-year currency translation headwinds (notably Indian Rupee, Turkish Lira and Brazilian Real) that predominantly impacted in H1. All commentary below is on a CER basis unless otherwise mentioned.

Apparel and Footwear (A&F)

In A&F, our core thread business (c.85% of segment sales) continued its resilient growth (up 2%) and was ahead of global retail markets which grew by around 1%. The ongoing market share gains in thread were underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility and sustainability credentials. The headline A&F growth of 1% was impacted by slower demand for zips and trims (c.10% of segment sales) due to certain in-year fashion trends and conscious low margin product rationalisation (zips and trims down 3% year-on-year), ongoing difficult trading conditions in Latin America Crafts (albeit with an improving trend in H2) as well as the impact of tail market exits (part of the Connecting for Growth programme) and other customer / product portfolio rationalisation actions.

Coats' ability to perform resiliently in mixed retail market conditions was assisted by several factors including deepening its relationships with retailers and brand owners through its global accounts programme and high levels of customer service, and with manufacturers, through the adoption of digital services and software solutions which deliver speed, accuracy and efficiency. This was demonstrated by the launch of online payment functionality in 14 countries, as well as improved functionality / automation of our well established eComm platform (which now has 94% customer adoption, and accounts for 86% of thread sales). We have also seen our sustainability credentials becoming an ever-increasing differentiator as brands and garment manufacturers seek "peace of mind" within their complex supply chains and set their own ambitious sustainability goals. On the latter, we have seen significant increased interest in our EcoVerde products (100% post-consumer recycled threads) with sales of $7 million in 2019, with a further significant increase expected in 2020, and excitement around the launch of the Twine Solutions digital thread prototype printing machine in June 2019.

Performance Materials

Following a review of our Performance Materials strategy during the year we are now reporting our sales activity in five different end-use categories: Personal Protection (c.30% of Performance Materials sales), Telecoms and Energy (c.20%), Household and Recreation (c.20%), Transportation (c.15%), and Other Industrial Applications (c.15%).

Performance Materials revenues grew 1% in the year on an organic CER basis (2% decline reported) marginally lower than the 2% October YTD reported in the November trading update, which was driven by a continuation of the slower H2 performance within the Transportation sector (down 5% for the year and down 8% in H2), largely due to the slowdown in global automotive production, and on-going delayed industry infrastructure investment in Telecoms and Energy. The Telecoms and Energy sector remains a fundamentally attractive growth area (up 7% in the year), however it has been temporarily impacted by the phasing of customer programmes linked to infrastructure investment decisions.

Growth in our other key strategic focus area of Personal Protection remained robust at 6%, underpinned by our innovative product solutions that deliver both safety and comfort, which has driven penetration into a number of emerging markets. Household and Recreation related products and Other Industrial Application revenues (previously "traditional" end uses) saw an encouraging trend in the year, with a return to marginal growth in H2 (down 3% for the year).

Our innovation credentials across both Performance Materials and A&F have been further enhanced by the opening of two more global Innovation Hubs in Turkey and China in H1 2019, following the opening of the first hub in North Carolina in 2018. These facilities provide opportunities to collaborate with our customers and brands, and work with them to create innovative new product solutions to meet their specific design needs; this helped to deliver incremental new product sales ($16 million in 2019), and a vitality index (% of sales of products launched within the last 5 years) of over 20% in Performance Materials.

Geographical performance

By geography, we saw resilient revenue growth in Asia (up 3% on a CER basis) which was underpinned by Apparel and Footwear growth across key non-China markets (e.g. Indonesia and Vietnam) as they continued to benefit from incremental volumes moving out of China (a dynamic that was exacerbated by US-China Trade War uncertainty in 2019). This resilient performance in Asia was also despite a slowdown in the smaller Performance Materials segment in that territory (mainly due to softness in the China automotive market).

Revenues in EMEA rose 4%, driven by Performance Materials, albeit impacted in the second half by the temporary slowdown in Telecoms and Energy as referred to earlier.

In the Americas, revenues decreased 5% as a result of the decline in Latin America Crafts (albeit with an improving trend in H2), the impact of portfolio rationalisation actions, and lower Transportation revenues. This was offset to some extent by an encouraging performance in certain Latam Performance Materials markets, and an improving trend in US consumer durables in H2 (which includes Household and Recreational).

Operating profit

At a Group level, adjusted operating profit increased 5% to $198 million on a CER basis (2018: $189 million) and adjusted operating margins were up 50 bps to 14.3% (2018: 13.8%). Year-on-year productivity and procurement initiatives continued to broadly offset structural inflation (e.g. wages and energy). The anticipated continued raw material cost inflation incurred during the year (partly linked to oil price) was recovered in full, however, gross margin percentage was impacted by lower activity levels and stock adjustments in certain territories (predominantly Americas). Operating margin progression was driven by continued cost control and the incremental year-on-year benefits from the Connecting for Growth programme. Group organic adjusted operating profit and margins grew 6% and 60bps respectively, which is ahead of the CER performance referred to above, due to the initial post-acquisition operating losses made by ThreadSol as it becomes integrated with the wider Coats Digital business.

On a reported basis, Group operating profit (including exceptional and acquisition-related items) increased 30% to $191 million (2018: $147 million), primarily due to significantly lower net exceptional and acquisition related items in the year when compared to 2018 (which included the initial Connecting for Growth reorganisation cost). Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to below is on an adjusted basis only.

Segmental profit
In A&F we are the global market leader and deliver a compelling value proposition for our customers (for example speed, quality, innovation, digital solutions and corporate responsibility). There is significant scale to our A&F operations (A&F orders represent over 90% of total Group orders) which drives production efficiencies, and in turn gross margin upside. In Performance Materials we are seeking to build market leading positions and scale in specific strategic focus areas where we excel in designing new product solutions to solve customer needs. As a result, Performance Materials production processes involve more specialisation which drives a higher average sales price and often significantly higher order size compared to A&F (and with that a lower average selling, general and administrative (SG&A) cost).

In 2019, we saw strong progression in A&F operating margins (100bps) on a CER basis, largely due to the reasons set out above which explain the movement in Group operating margins.

Performance Materials margins declined 100bps on a CER basis, which was largely driven by H2 factors, including the lower sales levels in the period and resulting operating inefficiencies, and inventory adjustments in our Americas business. Year-on-year progression of Performance Materials margins were also impacted by the investment in our innovation centres which have been opened in the last 12 months, which over time are expected to deliver further significant new product sales. Going forward, we expect underlying Performance Materials margins to progress as we return to higher levels of sales growth, although 2020 and beyond will be partly impacted by the initial dilutive effect of the lower margin Pharr High Performance Yarns business (see below).

Connecting for Growth programme

As announced in February 2018, Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation, whilst enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age.

Good progress continued to be made during 2019 and the programme has now finished, ahead of schedule, with the new operating structures embedded successfully within the organisation. Reinvestment projects, funded from the programme savings, are progressing well in the areas of digital (e.g. retro fitting sensors to our existing manufacturing equipment and effluent treatment plants to stream production / compliance data to drive business insights), innovation (e.g. two new innovation hubs opened in 2019), and appropriate talent acquisition. These will all support the ongoing strategy delivery of the Group and our next phase of growth.

Final cumulative net benefits for the programme are $28 million (of which $13 million in 2019), which is significantly ahead of the initial estimate of $15 million net benefits expected by 2020, when the programme commenced in 2018. The increased level of net savings have been delivered through exceptional project management and continuous course correction, for example by reducing the originally planned geographical cluster structure from 10 (previously c.45 geographic markets) to 7. We have achieved this whilst making reinvestments to embed our innovation, digitisation and people strategy initiatives which are an integral part of the programme.

The final net exceptional reorganisation charge for the programme was $31 million ($8 million in 2019), marginally higher than the initial $30 million estimate at the start of the programme as further opportunities for savings were identified.

Acquisition of Pharr High Performance Yarns (“Pharr HP”)

On 26 November 2019, the Group announced a binding agreement to acquire the business and assets of Pharr HP. This acquisition was completed on 10 February 2020 following the necessary regulatory approvals and other closing conditions.

Pharr HP is a market-leading manufacturer of high-performance engineered yarns based in McAdenville, North Carolina, US. Founded in 1939, it has around 350 employees. In its latest financial year to 31 March 2019, Pharr HP's annual sales were c.$110 million and adjusted EBITDA of c.$5 million. The transaction consideration was $37 million.

Pharr HP specialises in providing technical yarn solutions to the growing markets of Industrial Thermal Protection, Defence and Fire Service industries. The acquisition of Pharr HP's manufacturing capabilities and customer base provides further expertise and scale to Coats' existing Personal Protection business (part of the Performance Materials segment), and gives us a leadership position in this attractive growth market. Coats will enhance Pharr HP's performance by leveraging its extensive textile experience, strong industry connections, existing operational footprint in North America, and Coats' strong global brand to deliver high performance solutions for its customers.

On a pro-forma basis, combined 2019 sales in Personal Protection, including Pharr HP would have been c.$210 million, which represents a c.20% of the estimated addressable market, and c.50% of our total Performance Materials sales. As a result of the initial dilutive effect of Pharr HP lower operating margins, 2019 Performance Materials and Group operating margins would have been 10.5% (as reported: 12.8%), and 13.5% (as reported: 14.3%) respectively. Over time, we expect Pharr HP margins to trend towards Group levels.

Discontinued operations - sale of North America Crafts

As announced on 22 January 2019, it was agreed to sell the non-core North America Crafts business to Spinrite Acquisition Corp, a leading provider of craft products in North America. This transaction was subsequently completed on 20 February 2019. The final acquisition proceeds were $34 million, which was on a debt and cash free basis, and was subject to an adjustment for the level of net working capital as at the time of completion.

The sale of our standalone North America Crafts business has allowed the Group to focus completely on the business-to-business global Apparel and Footwear and Performance Materials businesses.

Coats retains the control and responsibility for the eventual outcome of the ongoing Lower Passaic River environmental matters. There is no change in the Group's overall position in relation to this matter, from that previously reported.

Board change

Alan Rosling, a Non-Executive Director since 2011, will not be standing for re-election as a Director at the 2020 AGM, to be held on 20 May 2020. The Board would like to thank Alan for his insightful guidance and contribution to the Board over the nine years of his tenure including setting up and chairing the Digital Advisory Council. Alan has played a key part in steering significant change to the Group, as we restructured the Guinness Peat Group and Coats Boards, transitioned from an investment holding company to a UK headquartered FTSE 250 manufacturing business and accelerated our Digital journey.

Dividend

Coats has a track record of delivering good levels of free cash through profitable sales growth, delivering self-help initiatives and investing in organic growth opportunities. The Board aims to use this free cash flow to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. As underlying earnings and cash flows increase, the Board intends to continue to pursue a progressive dividend policy.

As a result of this established policy, and reflecting the financial performance in 2019, the Board is proposing a final dividend of 1.30c per share which, combined with the interim dividend of 0.55c per share, gives a total dividend for the year of 1.85c (2018 full year dividend: 1.66c per share), which represents a 11% increase on the previous year. Subject to approval at the forthcoming AGM, the final dividend will be paid on 26 May 2020 to ordinary shareholders on the register at 1 May 2020, with an ex-dividend date of 30 April 2020.

Coronavirus (Covid-19)

As a business we continue to monitor the recent Covid-19 outbreak closely. We are focused on ensuring the safety and protection of our employees, implementing the necessary business continuity procedures and supporting our global customer base.

The impact for Coats to date has been in our China business which currently represents approximately 12% of Group sales, and 4 of our 50 global manufacturing facilities are in the country. These 4 facilities are now operational following the enforced government closures after the Chinese New Year with the majority of our employees now back at work. We are in the process of returning the 4 facilities to full capacity, which we expect to happen by the end of March.

Following the temporary shutdown of our facilities we have seen an $8 million year-on-year reduction in our China sales in the first two months of 2020.

China remains important to the wider A&F supply chain, producing around 40% of the world's garments and footwear. Looking forward we face uncertainty around the impact of the virus on the industry supply chain, both inside and outside of China. We will continue to monitor the situation carefully and respond as necessary.

Coats has an unrivalled global footprint and is uniquely placed to help brands and manufacturers as they look to further de-risk their own exposures to the largest sourcing market of China by moving incremental production volumes to alternative locations.

Outlook

We enter 2020 as a lean and agile organisation, having delivered significant positive strategic change through 2019. We are well placed to take advantage of the fast-paced and rapidly changing modern world, by capturing the many opportunities this presents to Coats as a truly global business.

Absent a material impact from Covid-19, Coats remains well placed to execute our strategy and deliver another year of growth in 2020.

Financial Review

Adjusted operating profit from continuing operations increased 5% to $198 million on a CER basis (2018: $189 million) and operating margins were up 50 bps to 14.3% (2018: 13.8%). On a reported basis, operating profit (which is after exceptional and acquisition related items) increased 30% to $191 million, as a result of the increase in adjusted operating profit, along with the significant reduction in net exceptional and acquisition-related items in the year when compared to 2018 (where the initial Connecting for Growth reorganisation cost was incurred, along with exceptional charges in relation to the Lower Passaic River environmental claim and UK pension equalisation).

The Income Statement on a reported basis was impacted by the relative strength of the US Dollar; particularly compared to the first half of 2018 where we saw FX tailwinds. This resulted in a decline of 2% in reported revenues year on year (vs a 1% growth on a CER basis), and 2% growth in adjusted operating profit (vs a 5% growth on a CER basis). As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. The main currency impact during the period was the strengthening US Dollar against the Indian Rupee, Turkish Lira and Brazilian Real. At current exchange rates we expect broadly neutral translation impact in 2020.

Adjusted earnings per share ('EPS') for the period increased 1% to 7.0 cents (2018: 6.9 cents). This was broadly in line with the reported 2% increase in adjusted operating profit (which includes the H1 weighted translation headwinds). A year-on-year increase in interest costs (including the initial impact of IFRS 16 (leases) and some one-off legacy charges in H1), was offset by a further reduction of 200bps in the underlying effective tax rate to 29% (2018: 31%). The mark-to-market foreign exchange losses on future hedging contracts incurred in H1, largely in relation to Sterling, reversed in the second half due to the Sterling appreciation seen in the period.

On a reported basis, the Group generated an attributable profit from continuing operations of $96 million compared to $55 million in 2018. The increase was primarily due to significantly lower net exceptional and acquisition related items in the year when compared to 2018 where the initial Connecting for Growth reorganisation cost was incurred, as well as charges in relation to the Lower Passaic River environmental claim and UK pensions equalisation.

The Group delivered an adjusted free cash flow of $107 million in 2019 (2018: $96 million) which reflects the adjusted operating profit growth, well controlled levels of working capital, marginally lower spend on capital expenditure, and lower levels of interest and cash tax paid (see later for details).

Return on capital employed (ROCE) remained strong at 42.3% which was broadly in line with 2018 (42.6%) as the both adjusted operating profits (including year-on-year foreign exchange translation headwinds) and our asset base grew by 2%.

Non-operating results

Net finance costs in the year were $27.9 million (pre-exceptional), an increase from $24.4 million in 2018. The key drivers of the increase in net finance costs in the year was a $1.7 million increase in the IAS19 pensions finance charge, a $3.7 million impact following the adoption of IFRS 16 (see below), the impact of certain legacy charges in Brazil/China that were booked in H1 ($1.7 million), with some offset from lower interest on borrowings ($1.4m reduction year-on-year). The mark-to-market foreign exchange losses on forward hedging contracts incurred in H1, largely in relation to Sterling, reversed in the second half based on the Sterling appreciation seen in the period (2018: $1.6 million mark-to-market loss).

The taxation charge for 2019 was $50.5 million (2018: $49.0 million) resulting in a reported tax rate of 30% (2018: 40%). Excluding exceptional and acquisition-related items and the impact of IAS19 finance charges, the underlying effective tax rate on pre-tax profits reduced 200 bps to 29% (2018: 31%). This was driven by a reduction in withholding taxes, a favourable change in profit mix for the period and the impact of a reduction in the headline India corporation tax rate during the year.

Profit attributable to minority interests was broadly in line with 2018 at $20.1 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 $4.4 million in 2019; which consisted of the remaining exceptional C4G reorganisation charge of $8 million (net of the profit on the sale of property as part of the C4G programme) and acquisition related costs of $2 million (see below), offset by a $6 million credit in relation to a significant historical legacy tax claim in Brazil (includes the operating profit impact and associated historical interest recovery). These were significantly reduced year-on-year (2018: $47.8 million) due to the weighting of the exceptional reorganisation charge from the Connecting for Growth programme ($23 million in 2018), as well as 2018 charges in relation to the Lower Passaic River environmental claim ($8 million) and UK pensions equalisation ($10 million).

Acquisition-related items in the year were $2.2 million (2018: $7.3 million) which consisted of the amortisation of intangible assets acquired ($2.9 million), acquisition transaction costs ($1.0 million) with some offset from the reversal of contingent consideration ($1.7 million).

Investment
Capital expenditure in the year, in addition to ongoing maintenance requirements, related to new product development (e.g. development of our two further global innovation hubs in Turkey and China), process improvements, digital tools, capacity expansion (e.g. in Bangladesh), health and safety, environmental spend (e.g. completion of a zero liquid discharge system at one of our major India plants), and employee welfare (e.g. a creche in our Turkey facility). These help to ensure that Coats maintains its strong corporate responsibility credentials and ethical reputation in the industry as well as benefiting the local communities that we do business in. Total capital spend for the period amounted to $44 million (1.2x depreciation and amortisation), which was slightly lower than 2018 ($48 million).

In order to continue to support our growth strategy and further reinforce our strong environmental compliance credentials we anticipate capital spend to be in the $45-55 million range for 2020.

Cash flow
The Group generated $107 million of adjusted free cash flow in 2019. This was an 11% increase on 2018 ($96 million) due to the increase in adjusted operating profit and controlled net working capital, alongside continued capital expenditure. This free cash flow measure is before annual pension deficit recovery payments, acquisitions and dividends, and excludes exceptional items such as the Connecting for Growth exceptional reorganisation cost.

Adjusted EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation, and excluding the impact of higher depreciation as a result of IFRS 16 (leases)) from continuing operations for the year was $233 million (2018: $231 million). Net working capital outflow in the year was $6 million which was an improvement on 2018 (2018: $17 million outflow) as working capital continues to be effectively controlled. Interest paid was $15 million, $4 million lower than 2018 as a result of lower levels of net debt.

Tax paid was $46 million, a decrease of $4 million from 2018 ($50 million). This reduction is primarily driven by cash tax benefits which arose on 2018 exceptional items crystallising in H1 2019, together with a favourable change in profit mix for the period and the reduction in India corporation tax rate, as well as the timing of certain items that will instead be incurred in 2020 cash tax.

The Group generated a free cash inflow of $72 million in the year (2018: $25 million), as the adjusted free cash inflow of $107 million and the proceeds of the North American Crafts disposal ($30 million; net of pre disposal operating cash outflows and transaction costs), were offset by UK pension payments ($27 million), shareholder dividends ($24 million) and exceptional and acquisition related items ($10 million).

As a result of the above free cash inflow in the year, net debt (excluding the impact of IFRS 16) as at 31 December 2019 was $150 million, $73 million below 31 December 2018 ($223 million).

Balance sheet
An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA (excluding the impact of IFRS 16 – see below), which improved to 0.6x adjusted EBITDA at 31 December 2019 (1.0x at 31 December 2018), and is below the lower end of the 1-2x stated target leverage range, although does not reflect the recent $37 million consideration in relation to the Pharr HP acquisition.

The sale of the North America Crafts business further supports our strong balance sheet and will enable us to invest in our business both organically and inorganically, as well as meet our other key capital demands of funding our pension schemes and making returns to shareholders.

IFRS 16 (leases)
Following the release of IFRS 16, which is effective for accounting periods beginning on or after 1 January 2019, the Group has reviewed and updated its accounting treatment for leases. The primary impact of this new standard for Coats is the requirement to use a single model for lessees which recognises a right of use asset and lease liability for all leases, and as such a removal of the distinction between finance and operating leases.

As at 31 December 2018, the Group held a significant number of operating leases which were previously expensed within operating profit on a straight line basis. The Group has chosen to apply the modified retrospective approach from the new accounting standard transitional date of 1 January 2019 and has therefore not restated comparatives. This has involved calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable operating lease contracts.

The impact on the 2019 Income Statement has been a net increase to adjusted operating profits (due to the replacement of operating lease charges offset by depreciation on the newly recognised assets) of $2.3 million, and an increase to the interest charge of $3.7 million reflecting the newly reflected lease liability. Overall, the impact on profit before tax of this change was therefore an adverse $1.4 million movement in the year.

In relation to the Balance Sheet, the newly recognised assets (previously operating leases) at 31 December 2019 amount to $63 million, with an associated lease liability of $65 million. Net debt, including this lease liability at 31 December 2019 was $215 million. For financial covenant purposes, our leverage remains calculated on the basis without the impact of IFRS 16 (0.6x at 31 December 2019). Including IFRS 16, leverage at 31 December 2019 was 0.9x.

Pensions and other post-employment benefits
The net obligation for the Group's retirement and other post-employment defined benefit liabilities (UK and other group schemes), on an IAS19 financial reporting basis, was $181 million as at 31 December 2019, which is broadly in line with 31 December 2018 ($168 million). This includes a reduction in the UK scheme liabilities, broadly offset by a reduction in the recognised US surplus, as explained further below.

The Group's UK defined benefit schemes, namely the Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, shows a $92 million IAS19 deficit at 31 December 2019 (£69 million), which is $17 million less than at 31 December 2018 ($109 million, £85 million). This reduction predominantly relates to the cash contributions made into the scheme in the year (net actuarial movements minimal).

Following the disposal of North America Crafts, Coats retains the previously incurred pension obligations from the business. The pension scheme was in a recoverable surplus position of $18 million as at 31 December 2019, which is a $30 million reduction from 31 December 2018 ($48 million). This reduction is as a result of fewer serving employees in the US remaining in the Group following disposal of the Crafts business, and in December 2019 the scheme was closed to new entrants from 2020 and closed to future accrual for current members from 2022, which resulted in an associated non-cash curtailment gain.

UK pension triennial valuation

As reported previously, following the merger of its three UK pension schemes in June 2018, the Group and the scheme Trustee successfully concluded the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date.

The Group has agreed ongoing annual deficit recovery payments of £20 million ($27 million) per annum increasing annually by the increase in the Retail Price Index (first increase in January 2020) based on a Technical Provisions deficit of £252 million ($334 million). As before, the Group will also meet Scheme administrative expenses and levies estimated at £4 million ($5 million) per annum in the future (i.e. total ongoing payments of £24 million ($32 million) per annum). The new deficit recovery payments have been effective from 1 April 2019 and are payable until 31 December 2028.

The previously agreed level of deficit recovery contributions was £17.5 million ($23 million), including estimated administration expenses and levies. As a result of the timing of the start of the new contributions (from April 2019), 2019 deficit recovery contributions, including estimated administration expenses and levies, were £22 million ($27 million).

The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous three UK schemes.

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	2019 Total US$m	Before exceptional and acquisition related items US$m	Exceptional and acquisition related items (see note 3) US$m	2018 Total US$m
Continuing operations							
Revenue		**1,388.7**	**-**	**1,388.7**	1,414.7	-	1,414.7
Cost of sales		**(898.1)**	**0.4**	**(897.7)**	(901.9)	(4.4)	(906.3)
Gross profit		**490.6**	**0.4**	**491.0**	512.8	(4.4)	508.4
Distribution costs		**(135.9)**	**(2.8)**	**(138.7)**	(142.7)	(4.5)	(147.2)
Administrative expenses		**(156.7)**	**(7.5)**	**(164.2)**	(176.0)	(38.9)	(214.9)
Other operating income		**-**	**2.9**	**2.9**	0.8	-	0.8
Operating profit		**198.0**	**(7.0)**	**191.0**	194.9	(47.8)	147.1
Share of profits of joint ventures		**1.1**	**-**	**1.1**	0.1	-	0.1
Finance income	**4**	**1.7**	**2.6**	**4.3**	1.7	-	1.7
Finance costs	**5**	**(29.6)**	**-**	**(29.6)**	(26.1)	-	(26.1)
Profit before taxation		**171.2**	**(4.4)**	**166.8**	170.6	(47.8)	122.8
Taxation	**6**	**(50.5)**	**-**	**(50.5)**	(53.8)	4.8	(49.0)
Profit from continuing operations		**120.7**	**(4.4)**	**116.3**	116.8	(43.0)	73.8
Discontinued operations							
Profit/(loss) from discontinued operations	**13**	**0.1**	**(0.6)**	**(0.5)**	2.8	(18.4)	(15.6)
Profit for the year		**120.8**	**(5.0)**	**115.8**	119.6	(61.4)	58.2
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		**100.7**	**(5.0)**	**95.7**	100.4	(61.2)	39.2
Non-controlling interests		**20.1**	**-**	**20.1**	19.2	(0.2)	19.0
		120.8	**(5.0)**	**115.8**	119.6	(61.4)	58.2
Earnings per share (cents)	**7**						
Continuing operations							
Basic				**6.66**			3.85
Diluted				**6.60**			3.78
Continuing and discontinued operations							
Basic				**6.63**			2.76
Diluted				**6.57**			2.70
Adjusted earnings per share	**14**	**6.97**			6.87		

Coats Group plc

Consolidated statement of comprehensive income

Year ended 31 December	**2019 US$m**	2018 US$m
Profit for the year	**115.8**	58.2
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on retirement benefit schemes	**(31.1)**	(21.8)
Tax on items that will not be reclassified	**7.3**	1.2
	(23.8)	(20.6)
Items that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges arising during the year	**4.8**	(1.0)
Transferred to profit or loss on cash flow hedges	**(0.3)**	(0.6)
Exchange differences on translation of foreign operations	**(7.7)**	(20.5)
	(3.2)	(22.1)
Other comprehensive income and expense for the year	**(27.0)**	(42.7)
Net comprehensive income and expense for the year	**88.8**	15.5

Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	**69.0**	(2.7)
Non-controlling interests	**19.8**	18.2
	88.8	15.5

Coats Group plc

Consolidated statement of financial position

	Notes	31 December 2019 US$m	31 December 2018 US$m
Non-current assets			
Intangible assets		**291.0**	284.2
Property, plant and equipment		**276.3**	282.2
Right-of-use assets		**63.4**	-
Investments in joint ventures		**11.4**	10.6
Other equity investments		**6.1**	6.1
Deferred tax assets		**16.2**	19.2
Pension surpluses		**13.8**	42.6
Trade and other receivables		**20.1**	21.4
		698.3	666.3
Current assets			
Inventories		**172.5**	185.4
Trade and other receivables		**261.2**	253.8
Other equity investments		**0.1**	0.6
Pension surpluses		**4.7**	6.1
Cash and cash equivalents	**11(f)**	**177.4**	135.7
Assets of disposal group and non-current assets classified as held for sale		**1.5**	51.4
		617.4	633.0
Total assets		**1,315.7**	1,299.3
Current liabilities			
Trade and other payables		**(284.4)**	(302.7)
Current income tax liabilities		**(17.8)**	(15.5)
Bank overdrafts and other borrowings		**(43.8)**	(20.3)
Lease liabilities		**(14.1)**	-
Retirement benefit obligations:			
- Funded schemes		**(27.5)**	(16.0)
- Unfunded schemes		**(6.2)**	(6.0)
Provisions		**(12.8)**	(16.3)
Liabilities of disposal group classified as held for sale		**-**	(17.9)
		(406.6)	(394.7)
Net current assets		**210.8**	238.3
Non-current liabilities			
Trade and other payables		**(18.2)**	(23.1)
Deferred tax liabilities		**(8.2)**	(10.5)
Borrowings		**(283.5)**	(338.1)
Lease liabilities		**(50.9)**	-
Retirement benefit obligations:			
- Funded schemes		**(71.6)**	(99.5)
- Unfunded schemes		**(94.5)**	(95.5)
Provisions		**(30.7)**	(39.0)
		(557.6)	(605.7)
Total liabilities		**(964.2)**	(1,000.4)
Net assets		**351.5**	298.9
Equity			
Share capital	**8**	**89.6**	88.5
Share premium account		**10.5**	10.4
Own shares	**8**	**(5.7)**	(6.8)
Translation reserve		**(75.9)**	(68.5)
Capital reduction reserve		**59.8**	59.8
Other reserves		**248.7**	244.2
Retained loss		**(5.9)**	(56.7)
EQUITY SHAREHOLDERS' FUNDS		**321.1**	270.9
Non-controlling interests		**30.4**	28.0
Total equity		**351.5**	298.9

Coats Group plc

Consolidated statement of changes in equity

For the year ended 31 December 2019

	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 loss US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2018	87.5	7.7	(7.7)	(48.8)	59.8	245.8	(58.6)	285.7	24.6	310.3
Profit for the year	-	-	-	-	-	-	39.2	39.2	19.0	58.2
Other comprehensive income and expense for the year	-	-	-	(19.7)	-	(1.6)	(20.6)	(41.9)	(0.8)	(42.7)
Dividends	-	-	-	-	-	-	(21.1)	(21.1)	(14.8)	(35.9)
Issue of ordinary shares	1.0	2.7	-	-	-	-	(0.7)	3.0	-	3.0
Movement in own shares	-	-	0.9	-	-	-	-	0.9	-	0.9
Share based payments	-	-	-	-	-	-	7.4	7.4	-	7.4
Deferred tax on share schemes	-	-	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Balance as at 31 December 2018	88.5	10.4	(6.8)	(68.5)	59.8	244.2	(56.7)	270.9	28.0	298.9
Profit for the year	-	-	-	-	-	-	95.7	95.7	20.1	115.8
Other comprehensive income and expense for the year	-	-	-	(7.4)	-	4.5	(23.8)	(26.7)	(0.3)	(27.0)
Dividends	-	-	-	-	-	-	(24.4)	(24.4)	(17.4)	(41.8)
Issue of ordinary shares	1.1	0.1	-	-	-	-	(1.1)	0.1	-	0.1
Movement in own shares	-	-	1.1	-	-	-	(0.2)	0.9	-	0.9
Share based payments	-	-	-	-	-	-	6.1	6.1	-	6.1
Deferred tax on share schemes	-	-	-	-	-	-	(1.5)	(1.5)	-	(1.5)
Balance as at 31 December 2019	**89.6**	**10.5**	**(5.7)**	**(75.9)**	**59.8**	**248.7**	**(5.9)**	**321.1**	**30.4**	**351.5**

Coats Group plc

Consolidated cash flow statement

For the year ended 31 December	Note	2019 US$m	2018 US$m
Cash inflow from operating activities			
Cash generated from operations	**11 (a)**	**205.4**	171.1
Interest paid		**(15.2)**	(19.1)
Taxation paid	**11 (b)**	**(46.3)**	(50.1)
Net cash generated by operating activities		**143.9**	101.9
Cash outflow from investing activities			
Investment income	**11 (c)**	**0.3**	1.6
Net capital expenditure and financial investment	**11 (d)**	**(39.1)**	(45.6)
Acquisitions and disposals of businesses	**11 (e)**	**25.8**	(0.1)
Net cash absorbed in investing activities		**(13.0)**	(44.1)
Cash outflow from financing activities			
Receipts from exercise of share options		**0.2**	3.0
Dividends paid to equity shareholders		**(24.1)**	(21.1)
Dividends paid to non-controlling interests		**(17.4)**	(14.8)
Payment of lease liabilities		**(17.3)**	-
Net decrease in borrowings		**(52.3)**	(20.4)
Net cash absorbed in financing activities		**(110.9)**	(53.3)
Net increase in cash and cash equivalents		**20.0**	4.5
Net cash and cash equivalents at beginning of the year		**115.7**	116.8
Foreign exchange gains/(losses) on cash and cash equivalents		**0.2**	(5.6)
Net cash and cash equivalents at end of the year	**11 (f)**	**135.9**	115.7
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents		**20.0**	4.5
Net decrease in other borrowings		**52.3**	20.4
Change in net debt resulting from cash flows (Free cash flow)		**72.3**	24.9
Increase in lease liabilities on adoption of IFRS 16	**1**	**(57.7)**	-
Net movement in lease liabilities during the period following the adoption of IFRS 16		**(6.8)**	-
Other non-cash movements		**(0.7)**	(0.7)
Foreign exchange gains/(losses)		**0.7**	(5.4)
Decrease in net debt		**7.8**	18.8
Net debt at start of year		**(222.7)**	(241.5)
Net debt at end of year	**11 (f)**	**(214.9)**	(222.7)

Notes to the consolidated financial information for the year ended 31 December 2019

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 2019 or 2018. The financial information for the year ended 31 December 2018 and 2019 is derived from the statutory accounts for 2018 (which has been delivered to the Registrar of Companies) and 2019 (which will be delivered to the Registrar of Companies following the AGM in May 2019). The auditors have reported on the 2018 and 2019 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 statutory accounts for the year ended 31 December 2019 are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and complies with the disclosure requirements of the Listing Rules of the UK Financial Services Authority. The accounting policies adopted by the Group are consistent with those set out in the 2018 Annual Report. A full list of accounting policies are presented in the 2019 Annual Report. For details of new accounting policies applicable to the Group in 2019 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 IFRS, this statement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the 2019 Annual Report; these will be available to shareholders in March 2020.

Critical accounting judgements and key sources of estimation uncertainty

The principal accounting policies adopted by the Group are set out in 2019 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:

Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations (which are dealt with separately below) that have had a significant effect on the amounts recognised in the financial statements.

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 obligations recognised in the consolidated statement of financial position are the present values of the defined benefit obligations at the year end less the fair value of any associated assets. 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 obligations recognised in the consolidated statement of financial position.

The carrying values of the Group's pension obligations as well as a sensitivity analysis relating to changes in discount rates, beneficiary mortality and inflation rates are included in the 2019 Annual Report.

1. Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

During the year ended 31 December 2019 critical accounting judgements and key sources of estimation uncertainty were reassessed. Classification of exceptional and acquisition related items (note 3) are no longer considered a critical judgement in applying the Group's accounting policies as the total impact of these on profit before taxation was reduced in 2019. The classification of the North America Crafts business as held for sale (note 13) is no longer a critical accounting judgement after its disposal during the year. Provisioning for Lower Passaic River environmental matters (note 10) is not considered a key source of estimation uncertainty at 31 December 2019 as, whilst there remains an estimation uncertainty in the longer term, there is not a significant risk of a material adjustment to this provision before 31 December 2020.

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

Except for the changes arising from the adoption of new accounting standards (as detailed below), and the changes to operating segments (as detailed in note 2) 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 2018.

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

- IFRS 16 'Leases';
- Amendments to IFRS 9 ('Prepayment features with negative compensation and modifications of financial liabilities');
- Amendments to IAS 19 ('Plan amendments, curtailments or settlements');
- Amendments to IAS 28 ('Long-term interests in Associates and Joint Ventures');
- Annual improvements to IFRS's 2015 – 2017 cycle;
- IFRIC 23 Uncertainty over Income Tax Treatments; and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

The adoption of these standards, interpretations and amendments has not had a material impact on the financial statements of the Group, except for the adoption of IFRS 16 'Leases' as set out below.

IFRS 16 'Leases'

In the current year, the Group, for the first time, has applied IFRS 16 'Leases'. The date of initial application of IFRS 16 for the Group is 1 January 2019.

This standard provides a single model for lessees which recognises a right-of-use asset and lease liability for all leases, exemptions can be applied to low value and short-term leases. The distinction between finance and operating leases for leases is removed.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by details of the impact of adopting IFRS 16. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Accounting policies under IFRS 16 Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as assets with a value of US$5,000 or less when new). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

1. Basis of preparation (continued)

IFRS 16 'Leases' (continued)

Accounting policies under IFRS 16 Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

Approach to IFRS 16 transition

The Group has adopted the modified retrospective approach from the transitional date, and therefore comparatives have not been restated. This involved calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date. IFRS 16 also has a number of practical expedients for first time adoption.

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

1. Basis of preparation (continued)

IFRS 16 'Leases' (continued)

Approach to IFRS 16 transition (continued)

The Group has utilised the following practical expedients at the transition date:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of the right-of-use asset on transition;
- Use hindsight to determine the term;
- Use onerous contract assessment under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' immediately before transition instead of performing an impairment review under IAS 36 'Impairment of Assets';
- For leases with a remaining term of less than 12 months at 1 January 2019, the short-term lease exemption in IFRS 16 was taken; and
- Leases comprising of both an asset and a non-lease service component will not be separated and both asset and service cost will be included in the calculation of the initial asset and liability.

The Group also considered the implications of IFRS 16 on other, more judgmental, contractual arrangements such as solar panels, biomass generators and other manufacturing contracts. Of the contractual arrangements reviewed those relating to biomass generators and solar panels were determined to be leases. However, the lease payments for the solar panels vary with output of the underlying asset and are therefore expensed under IFRS 16.

Financial impact of the adoption of IFRS 16

The adoption of IFRS 16 had the following impact on the Group's consolidated statement of financial position at 1 January 2019:

	1 January 2019 US$m
Consolidated statement of financial position	
Increase in right-of-use assets	**58.5**
Increase in lease liabilities	**(57.7)**
Decrease in property, plant and equipment	**(0.2)**
Decrease in provisions	**1.3**
Decrease in prepayments	**(1.9)**

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

1. Basis of preparation (continued)

IFRS 16 'Leases' (continued)

Financial impact of the adoption of IFRS 16 (continued)

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 6%.

	1 January 2019 US$m
Operating lease commitments disclosed under IAS 17 at 31 December 2018 (as restated)[1]	**82.8**
Short term and low value lease commitments straight-line expensed under IFRS 16	**(2.9)**
Payments due in periods covered by extension options that are included in the lease term	**11.0**
Effect of discounting	**(19.4)**
Lease liabilities recognised at 1 January 2019	**71.5**
Less: Liabilities relating to discontinued North America Crafts business (classified as held for sale on 31 December 2018)	**(13.8)**
Lease liabilities from continuing operations recognised at 1 January 2019	**57.7**

[1] Subsequent to the 2018 year end the Group identified as part of its IFRS 16 assessment operating lease commitments of $2.4 million which were omitted from the 2018 disclosure and as such have now been included in the operating lease commitments disclosed under IAS 17 at 31 December 2018.

The adoption of IFRS 16 has had the following impact on the Group's results from continuing operations for the year ended 31 December 2019:

Year Ended 31 December	**2019 US$m**
Consolidated income statement	
Increase in operating profit	**2.3**
Decrease in profit before tax	**(1.4)**
Decrease in profit after tax	**(1.0)**
Consolidated cash flow statement	
Increase in cash flows from operating activities	**17.3**
Decrease in cash flows from financing activities	**(17.3)**

Following the adoption of IFRS 16 'Leases', payments of obligations under leases from 1 January 2019 are reported within cash flows from financing activities and are deducted in arriving at free cash flow. For the year ended 31 December 2018 before the adoption of IFRS 16 there were immaterial amounts of payments under finance leases included within cash flows from financing activities.

As lease liabilities are included within net debt, the transition to IFRS 16 has resulted in an increase in net debt of $64.1 million as at 31 December 2019. For the definition and calculation of net debt see note 11 (f). For financial covenant purposes, the Group leverage remains calculated on the basis without the impact of IFRS 16.

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

1. Basis of preparation (continued)

Going concern

Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Group is a going concern and this financial information is prepared on that basis.

Principal exchange rates

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

		2019	2018
Average	Sterling	**0.79**	0.75
	Euro	**0.90**	0.85
	Brazilian Real	**3.95**	3.65
	Chinese Renminbi	**6.91**	6.62
	Indian Rupee	**70.41**	68.41
	Turkish Lira	**5.78**	4.84
Period end	Sterling	**0.75**	0.78
	Euro	**0.89**	0.87
	Brazilian Real	**4.02**	3.87
	Chinese Renminbi	**6.96**	6.88
	Indian Rupee	**71.35**	69.77
	Turkish Lira	**5.95**	5.29

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 are grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

The reportable segments were changed in 2019 to Apparel & Footwear and Performance Materials and therefore comparative information for the year ended 31 December 2018 has been restated on a consistent basis.

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

2. Segmental analysis (continued)

Previously the reportable segments for the year ended 31 December 2018 comprised the continuing industrial thread business and the discontinued North America Crafts business which was sold in February 2019. The results of the discontinued North America Crafts business is set out in Note 13.

Following its integration with the wider Latin America business, the smaller Latin America Crafts business is reported within the Apparel & Footwear segment.

Segment revenue and results

Year ended 31 December 2019	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	**1,063.1**	**325.6**	**1,388.7**
Segment profit	**156.3**	**41.7**	**198.0**
Exceptional and acquisition related items (note 3)			**(7.0)**
Operating profit			**191.0**
Share of profits of joint ventures			**1.1**
Finance income			**4.3**
Finance costs			**(29.6)**
Profit before taxation from continuing operations			**166.8**

Year ended 31 December 2018 (Restated)	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	1,083.0	331.7	1,414.7
Segment profit	148.1	46.8	194.9
Exceptional and acquisition related items (note 3)			(47.8)
Operating profit			147.1
Share of profits of joint ventures			0.1
Finance income			1.7
Finance costs			(26.1)
Profit before taxation from continuing operations			122.8

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.

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	**2019** **US$m**	2018 US$m
Continuing operations		
Primary geographic markets		
Asia	**799.7**	790.9
Americas	**323.2**	348.6
EMEA	**265.8**	275.2
Total	**1,388.7**	1,414.7
Continuing operations		
Apparel & Footwear	**1,063.1**	1,083.0
Performance Materials	**325.6**	331.7
Total	**1,388.7**	1,414.7
Timing of revenue recognition		
Goods transferred at a point in time	**1,376.6**	1,403.4
Software solution services transferred over time	**12.1**	11.3
Total	**1,388.7**	1,414.7

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

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

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 to reflect the underlying performance of the business and to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 14.

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.

Total exceptional and acquisition related items charged to operating profit for the year ended 31 December 2019 were $7.0 million (2018: $47.8 million) comprising exceptional items for the year ended 31 December 2019 of $4.8 million (2018: $40.5 million) and acquisition related items for the year ended 31 December 2019 of $2.2 million (2018: $7.3 million).

Exceptional items

Exceptional items charged/(credited) to operating profit during the year ended 31 December 2019 are set out below:

Year ended 31 December	**2019 US$m**	2018 US$m
Exceptional items:		
Connecting for Growth programme reorganisation costs:		
- Cost of sales	**3.1**	4.4
- Distribution costs	**2.8**	4.5
- Administrative expenses	**5.3**	13.9
	11.2	22.8
Profit from sale of property:		
- Other operating income	**(2.9)**	-
Total Connecting for Growth programme exceptional items	**8.3**	22.8
Cost of sales:		
Brazil indirect taxes	**(3.5)**	-
Administrative expenses:		
US environmental costs	**-**	8.0
UK pension scheme consolidation	**-**	(0.5)
UK Guaranteed Minimum Pension Equalisation	**-**	10.2
Total exceptional items charged to operating profit from continuing operations	**4.8**	40.5

Connecting for Growth programme – Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation, whilst enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age. The programme has now finished. The programme focused on simplification across many aspects of the organisation and included transitioning from market-focussed support functions to realigned globally integrated support functions, redesigning the way the Group services a number of its peripheral markets and moving from a business operated by individual local management teams to scalable clusters. Exceptional reorganisation costs of $11.2 million were incurred in the year ended 31 December 2019 (2018: $22.8 million) comprising severance costs of $7.4 million (2018: $20.5 million), fixed asset disposals and write offs of $2.2 million (2018: $0.6 million) and closure and other one off costs of $1.6 million ($1.7 million).

3. Exceptional and acquisition related items (continued)

Connecting for Growth programme – property disposals - During the year ended 31 December 2019 a profit of $2.9 million (2018: $nil) was made from the sale of properties in peripheral markets in connection with the Connecting for Growth Programme.

Brazil indirect taxes - During the year ended 31 December 2019 a final and unappealable Supreme Court decision was received by one of the Group's subsidiary companies in Brazil relating to payments of indirect taxes dating back to 2005. This Supreme Court decision grants the company the right to exclude Brazilian ICMS (indirect tax on goods and services) from the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes. As a result, estimated refunds have been recognised in the results for the year ended 31 December 2019 with an exceptional credit of $3.5 million included in cost of sales and exceptional interest income recognised of $2.6 million (see note 4).

Legal filings have been advanced in respect of the Group's other subsidiary in Brazil in respect of the same matter which dates back approximately 15 years but the Supreme Court ruling has not yet been received. This represents a contingent asset and no amounts have been recognised in the results for the year ended 31 December 2019 for this. At this stage it is not practicable to quantify the potential amount of this contingent asset.

Exceptional items in the year ended 31 December 2018 also included the following:

US environmental costs – In 2010, 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. An additional provision of $8.0 million was made during the year ended 31 December 2018 to cover legal and professional fees in respect of this matter (see note 10).

UK pension scheme consolidation - Following agreement with the UK Pension Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the Coats UK, Brunel and Staveley schemes (the Previous Schemes) were transferred to a single new scheme (named the Coats UK Pension Scheme). The Previous Schemes were wound-up and as part of this process a number of the Previous Schemes' members with small pension entitlements were given the option to exchange their pension entitlement for a cash lump sum. This process resulted in an exceptional credit of $1.8 million during the year ended 31 December 2018. Costs incurred in connection with the UK pension scheme consolidation were $1.3 million and as a result the net credit for the year was $0.5 million.

UK Guaranteed Minimum Pension Equalisation – During the year ended 31 December 2018 an estimated past service charge of $10.2 million was recognised following the Lloyds Banking Group judgement in October 2018 and the requirement for all UK pension schemes to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions. This represented an increase of approximately 0.35% of pension scheme liabilities.

Exceptional items: Discontinued operations – During the year ended 31 December 2019 an exceptional charges in relation to discontinued operations were $0.6 million (2018: $18.4 million). See note 13.

Acquisition related items

Acquisition related items are set out below:

Year ended 31 December	**2019 US$m**	2018 US$m
Acquisition related items:		
Administrative expenses:		
Contingent consideration	**(1.7)**	4.3
Acquisition transaction costs	**1.0**	0.7
Amortisation of acquired intangible assets	**2.9**	2.3
Total acquisition related items before taxation	**2.2**	7.3

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

3. Exceptional and acquisition related items (continued)

Acquisition related items (continued)

The Group has made acquisitions 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.

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

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

4. Finance income

Year ended 31 December	**2019 US$m**	2018 US$m
Income from investments	**0.1**	0.1
Other interest receivable and similar income	**4.2**	1.6
	4.3	1.7

Other interest receivable and similar income for the year ended 31 December 2019 includes exceptional income of $2.6 million (2018: $nil) relating to Brazil PIS/COFINS refunds (see note 3 for further details).

5. Finance costs

Year ended 31 December	**2019 US$m**	2018 US$m
Interest on bank and other borrowings	**14.5**	15.9
Interest expense on lease liabilities	**3.7**	-
Net interest on pension scheme assets and liabilities	**5.5**	3.8
Other finance costs including unrealised gains and losses on foreign exchange contracts	**5.9**	6.4
	29.6	26.1

6. Tax on profit from continuing operations

Year ended 31 December	**2019 US$m**	2018 US$m
UK Corporation tax at 19% (2018: 19%)	**-**	-
Overseas tax charge	**(48.3)**	(53.0)
Deferred tax (charge)/credit	**(2.2)**	4.0
Total tax charge	**(50.5)**	(49.0)

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

7. Earnings 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 per ordinary share from continuing and discontinued operations is based on the profit 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 share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year 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.

Year Ended 31 December	**2019 US$m**	2018 US$m
Profit from continuing operations attributable to equity shareholders	**96.2**	54.8
Profit from continuing and discontinued operations attributable to equity shareholders	**95.7**	39.2

Year Ended 31 December	**2019 Number of shares m**	2018 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,443.8**	1,420.1
Adjustment for share options and LTIP awards	**13.7**	27.3
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,457.5**	1,447.4

Year Ended 31 December	**2019 cents**	2018 cents
Continuing operations:		
Basic earnings per ordinary share	**6.66**	3.85
Diluted earnings per ordinary share	**6.60**	3.78
Continuing and discontinued operations:		
Basic earnings per ordinary share	**6.63**	2.76
Diluted earnings per ordinary share	**6.57**	2.70

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

8. Issued share capital

During the year ended 31 December 2019 the Company issued 17,324,009 Ordinary shares of 5p each (2018: 14,191,384) following the exercise of awards under the Group's share based incentive plans as set out below:

	Number of Shares	**US$m**
At 1 January 2019	1,427,492,032	88.5
Issue of ordinary shares	17,324,009	1.1
At 31 December 2019	**1,444,816,041**	**89.6**

The own shares reserve of $5.7 million at 31 December 2019 (2018: $6.8 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 2019 was 14,591,071 (2018: 17,165,314).

9. Dividends

Year Ended 31 December	**2019 US$m**	2018 US$m
2019 interim dividend paid – 0.55 cents per share	**7.8**	-
2018 final dividend paid – 1.16 cents per share	**16.6**	-
2018 interim dividend paid – 0.50 cents per share	**-**	7.0
2017 final dividend paid – 1.00 cents per share	**-**	14.1
	24.4	21.1

The proposed final dividend of 1.30 cents per ordinary share for the year ended 31 December 2019 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 26 May 2020 to ordinary shareholders on the register on 1 May 2020.

10. US environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has 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. Approximately 50 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

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 that are not currently funding the study of the river, 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. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider a remedial alternative proposed by the CPG for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

10. US environmental matters (continued)

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 also 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 are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties has not yet been 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 has 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 upcoming allocation, CC intends to present 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 party. The allocation process is underway and is expected to be completed at the end of 2020, although that date may be extended.

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 being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's belief that it is a de minimis party.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were 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 (see note 3) to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 31 December 2019, $9.2 million of this provision had been utilised. The remaining provision at 31 December 2019, taking into account insurance reimbursement, was $14.6 million (2018: $17.6 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 sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

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

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2019 (continued)

11. Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year Ended 31 December	**2019 US$m**	2018 US$m
Operating profit	**191.0**	147.1
Depreciation of owned property, plant and equipment	**29.9**	29.5
Deprecation of right-of-use assets	**15.2**	-
Amortisation of intangible assets	**8.0**	9.2
Decrease/(increase) in inventories	**10.4**	(6.8)
Increase in debtors	**(6.5)**	(18.5)
(Decrease)/increase in creditors	**(13.8)**	8.8
Provisions and pension movements	**(33.5)**	(4.5)
Foreign exchange and other non-cash movements	**4.4**	6.1
Discontinued operations	**0.3**	0.2
Cash generated from operations	**205.4**	171.1

b) Taxation paid

Year Ended 31 December	**2019 US$m**	2018 US$m
Overseas tax paid	**(46.3)**	(51.4)
Discontinued operations	**-**	1.3
	(46.3)	(50.1)

c) Investment income

Year Ended 31 December	**2019 US$m**	2018 US$m
Dividends received from joint ventures	**0.3**	1.6
	0.3	1.6

d) Capital expenditure and financial investment

Year Ended 31 December	**2019 US$m**	2018 US$m
Acquisition of property, plant and equipment and intangible assets	**(44.3)**	(47.6)
Disposal/(acquisition) of other equity investments	**0.4**	(5.4)
Disposal of property, plant and equipment	**4.3**	3.2
Discontinued operations	**0.5**	4.2
	(39.1)	(45.6)

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

e) Acquisitions and disposals of businesses

Year Ended 31 December	2019 US$m	2018 US$m
Acquisition of businesses	**(4.9)**	**(1.8)**
Disposal of businesses	**30.7**	**1.7**
	25.8	**(0.1)**

f) Summary of net debt

Year Ended 31 December	2019 US$m	2018 US$m
Total cash and cash equivalents	**177.4**	135.7
Bank overdrafts	**(41.5)**	(20.0)
Net cash and cash equivalents	**135.9**	115.7
Borrowings	**(285.8)**	(338.4)
Net debt excluding lease liabilities	**(149.9)**	(222.7)
Lease liabilities	**(65.0)**	-
Total net debt	**(214.9)**	(222.7)

Total cash and cash equivalents at 31 December 2019 include an amount of $25.5 million which are under a notional cash pooling arrangement which a number of the Group's UK subsidiaries participate in. Cash and overdraft balances under this arrangement are reported on a gross basis. On a net basis at 31 December 2019 cash and cash equivalents are $151.9 million and bank overdrafts are $16.0 million.

Total net debt of $214.9 million (2018: $222.7 million) comprises borrowings of $285.8 million (2018: $338.4 million), net cash and cash equivalents of $135.9 million (2018: $115.7 million) and lease liabilities of $65.0 million (2018: $nil). Movements in total net debt during the year included the net cash repayments of borrowings of $52.3 million (2018: $20.4 million), increase in net cash and cash equivalents of $20.0 million (2018: $4.5 million), increase in lease liabilities of $64.5 million (2018: $nil), foreign exchange gains of $0.7 million (2018: $5.4 million loss) and other non-cash movements of $0.7 million (2018: $0.7 million).

12. Acquisitions

a) Acquisition of ThreadSol

On 12 February 2019 the Group completed the acquisition of 100% of the voting equity of Intellosol Softwares India Private Limited ('ThreadSol'), a company incorporated in India that is a cloud-based digital applications provider. ThreadSol's technology focuses on fabric usage optimisation in apparel manufacturing and helps customers reduce fabric waste and cost, and establish accurate product costing. The Group acquired ThreadSol in order to expand the offerings of the Coats Digital business.

The initial consideration transferred for the acquisition was $3.8 million and net of cash and cash equivalents acquired was $3.7 million. In addition consideration of $0.6 million was paid following finalisation of certain completion consideration adjustments based on the amount of cash and net working capital at the acquisition date.

12. Acquisitions (continued)

a) Acquisition of ThreadSol (continued)

Contingent deferred consideration amounts are also payable. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Contingent deferred consideration amounts will therefore be charged to the income statement over the period of service they relate to. Up to $6.4 million is payable over a service period of four years to 31 December 2022. The charge to the income statement for contingent deferred consideration for the year ended 31 December 2019 was $0.5 million.

Fair values of the identifiable assets and liabilities of ThreadSol as at the date of acquisition were as follows:

	Fair value recognised US$m
Assets	
Intangible assets	3.9
Property, plant and equipment	0.1
Trade and other receivables	0.6
Cash and cash equivalents	0.1
	4.7
Liabilities	
Trade and other payables	(0.7)
Deferred tax liabilities	(0.6)
Total identifiable net assets acquired at fair value	3.4
Goodwill recognised on acquisition	1.0
Total consideration paid	4.4

In accounting for the acquisition, adjustments were made to the book values of the net assets of the company acquired to reflect their fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired was completed during the year ended 31 December 2019 within 12 months of the acquisition date.

Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial. There are no material contingent liabilities recognised in the amounts above in accordance with paragraph 23 of IFRS 3 (revised).

The excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired is represented by software of $2.1 million, in process technology of $1.7 million and brands and trade names of $0.1 million, with residual goodwill arising of $1.0 million.

The goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across the Group; and
- the ability to exploit the Group's existing customer base.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

ThreadSol revenues of $0.8 million and loss before tax of $1.6 million from the date of acquisition to 31 December 2019 has been included in the results from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been $1.0 million and the loss before tax would have been $1.8 million based on unaudited management accounts for the year ended 31 December 2019.

12. Acquisitions (continued)

a) Acquisition of ThreadSol (continued)

Transaction costs of $0.1 million were expensed and included in administrative expenses in the consolidated income statement for the year ended 31 December 2019. Transaction costs paid in the year ended 31 December 2019 were $0.6 million and are included in the cash flows absorbed in investing activities in the condensed consolidated cash flow statement.

The total cash outflow in the year ended 31 December 2019 relating to the acquisition of ThreadSol was $4.9 million representing the consideration paid net of cash and cash equivalents acquired of $4.3 million and transaction costs paid of $0.6 million.

b) Acquisition of Pharr High Performance Yarns

On 10 February 2020 the Group completed the acquisition of the trade and assets of Pharr High Performance Yarns (“Pharr HP”), a market leading manufacturer of high performance engineered yarns, based in McAdenville, North Carolina, US. Pharr HP specialises in providing technical yarn solutions to the growing markets of Industrial Thermal Protection, Defence and Fire Service industries. Its manufacturing capabilities and customer base will provide the Group with further expertise within Personal Protection, a key end-use market in the Performance Materials operating segment. Other parts of Pharr, such as the carpet yarns and speciality flooring products business are not included as part of the acquisition.

The initial consideration transferred on the date of acquisition to acquire the Pharr HP business was $37 million.

Transaction costs relating to the acquisition totalling $0.9 million have been expensed and are included in administrative expenses in the consolidated income statement for the year ended 31 December 2019. Transaction costs paid in connection with the acquisition in the year ended 31 December 2019 were $0.3 million and are included in the cash flows absorbed in investing activities in the consolidated cash flow statement.

The Group is in the process of completing the assessment of the fair value of assets and liabilities acquired of the Pharr HP business, including any intangible assets. Given the completion date of the acquisition of Pharr HP was after the 31 December 2019 year end and given the acquisition is for the trade and assets of the Pharr HP business which requires separation from other parts of Pharr that have not been acquired, it has not been practical to complete this assessment as yet.

As of the completion date it is expected that the amount of the net tangible assets of Pharr HP will be broadly similar to the initial consideration paid of $37 million, which may be subject to adjustment for the actual level of net working capital at completion, and before any adjustments to book values of net tangible assets to reflect their fair values to the Group and before the alignment of accounting policies to those of the Group where appropriate.

As the acquisition was completed after the 31 December 2019 year end, the results of Pharr HP have not been consolidated in these financial statements.

13. Sale of North America Crafts

In January 2019, Coats agreed to sell its non-core North America Crafts business to Spinrite Acquisition Corp for cash consideration payable at completion of $37 million. The sale proceeds, which were on a debt and cash free basis, were subject to an adjustment for the level of net working capital as at the time of completion.

The assets and liabilities at 31 December 2018 of the North America Crafts business were reclassified as a disposal group held for sale and the results of the business are reported as discontinued operations in the income statement, including prior period amounts. The sale was completed on 20 February 2019, the date which control passed to the acquirer.

Coats Group plc

Notes to the financial information for the year ended 31 December 2019 (continued)

13. Sale of North America Crafts (continued)

a) Discontinued operations

The results of discontinued operations are presented below. All amounts relate to the North America Crafts business unless stated:

Year Ended 31 December	**2019 US$m**	2018 US$m
Revenue	**14.8**	128.3
Cost of sales	**(10.4)**	(88.5)
Gross profit	**4.4**	39.8
Distribution costs	**(3.7)**	(29.2)
Administrative expenses	**(2.4)**	(11.5)
Other operating income	**1.6**	3.6
Operating (loss)/profit and (loss)/profit before taxation	**(0.1)**	2.7
Tax on (loss)/profit	**0.2**	0.1
Profit from discontinued operations	**0.1**	2.8
Loss on disposals (note 13(b))	**(0.6)**	-
Loss arising on measurement to fair value less costs to sell (see note 13 (c))	**-**	(18.4)
Total loss from discontinued operations	**(0.5)**	(15.6)

Revenue in the table above includes inter-company sales of $nil for the year ended 31 December 2019 (2018: $0.8 million). External revenue of the North America Crafts business for the year ended 31 December 2019 was $14.8 million (2018: $127.5 million).

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

Year Ended 31 December	**2019 cents**	2018 cents
Loss per ordinary share from discontinued operations:		
Basic loss per ordinary share	**(0.03)**	(1.09)
Diluted loss per ordinary share	**(0.03)**	(1.08)

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

Year Ended 31 December	**2019 US$m**	2018 US$m
Net cash inflow from operating activities	**0.3**	1.5
Net cash inflow from investing activities	**0.5**	5.9
Net cash flows from discontinued operations	**0.8**	7.4

Notes to the financial information for the year ended 31 December 2019 (continued)

13. Sale of North America Crafts (continued)

b) Loss on disposals

The major classes of assets and liabilities disposed relating to North America Crafts as of the disposal date on 20 February 2019 were as follows:

	US$m
Property, plant and equipment	-
Right-of-use assets	13.8
Inventories	35.3
Trade and other receivables	13.6
Total assets	**62.7**
Trade and other payables	(13.2)
Deferred tax liabilities	(0.2)
Lease liabilities	(13.6)
Total liabilities	**(27.0)**
Net assets disposed	**35.7**
Consideration received	(34.6)
Disposal costs and completion adjustments	1.4
Curtailment gain on post-retirement medical liabilities	(1.4)
Total exceptional loss on disposal of North America Crafts	**1.1**
Profit on disposal of legacy UK Crafts property	(0.5)
Exceptional loss on disposals – discontinued operations	**0.6**

Following the sale of the North America Crafts business, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters (see note 10).

In addition Coats retains the previously incurred pension obligations and post-retirement medical liabilities from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of $64.7 million at 31 December 2018 with a recoverable surplus of $48.1 million recognised on the balance sheet. As a consequence of the disposal during the year ended 31 December 2019 the recoverable surplus recognised on the balance sheet was reduced by $10.6 million (although there was no change in the gross surplus in the scheme) and a curtailment gain arose on the post-retirement medical liabilities of $1.4 million, net of tax.

c) Assets and liabilities held for sale

Assets and liabilities classified as held for sale are set out below. The assets and liabilities of the disposed North America Crafts were classified as a disposal group held for sale at 31 December 2018.

	2019 US$m	2018 US$m
Assets of the disposal group classified as held for sale	**-**	50.6
Other non-current assets classified as held for sale [1]	**1.5**	0.8
Total assets of the disposal group and non-current assets classified as held for sale	**1.5**	51.4
Liabilities of the disposal group classified as held for sale	**-**	(17.9)
Total net assets classified as held for sale	**1.5**	33.5

[1] The other non-current assets held for sale at 31 December 2019 of $1.5 million (2018: $0.8 million) are property, plant and equipment that do not relate to the North America Crafts business.

Notes to the financial information for the year ended 31 December 2019 (continued)

13. Sale of North America Crafts (continued)

c) Assets and liabilities held for sale (continued)

The major classes of assets and liabilities held for sale relating to North America Crafts at 31 December 2018 were as follows:

	31 December 2018 US$m
Property, plant and equipment	-
Inventories	34.0
Trade and other receivables	16.6
Total assets of the disposal group classified as held for sale	**50.6**
Trade and other payables	17.4
Deferred tax liabilities	0.5
Total liabilities of the disposal group classified as held for sale	**17.9**

As at the date of reclassification of the North America Crafts disposal group to held for sale, the fair value less cost to sell was less than the carrying amounts. The loss arising on measurement to fair value less costs to sell was $18.4 million which was included as an exceptional charge within the loss from discontinued operations and included transaction costs incurred for the year ended 31 December 2018.

The loss arising on measurement to fair value less costs to sell was applied to reduce the carrying amounts of property plant and equipment by $10.8 million to $nil and inventories by $3.5 million to $34.0 million with additional liabilities and costs of $4.1 million being recognised as of 31 December 2018.

14. Alternative performance measures

The financial information in this statement contains both statutory measures and alternative performance measures which, in management’s view, reflect the underlying performance of the business and provide a more meaningful comparison of how the Group’s business is managed and measured on a day-to-day basis.

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

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group’s financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting Standards (‘IFRS’) as adopted by the European Union 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 2019 (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.

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

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

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

Year Ended 31 December	**2019 US$m**	2018 US$m	% Growth
Revenue from continuing operations	**1,388.7**	1,414.7	(2)%
Constant currency adjustment	**-**	(40.4)	
Revenue on a CER basis	**1,388.7**	1,374.3	1%
Revenue from acquisitions	**(0.8)**	-	
Organic revenue on a CER basis	**1,387.9**	1,374.3	**1%**

Year Ended 31 December	**2019 US$m**	2018 US$m	% Growth
Operating profit from continuing operations[1]	**191.0**	147.1	30%
Exceptional and acquisition related items (note 3)	**7.0**	47.8	
Adjusted operating profit from continuing operations	**198.0**	194.9	2%
Constant currency adjustment	**-**	(5.9)	
Adjusted operating profit on a CER basis	**198.0**	189.0	5%
Operating loss from acquisitions	**1.6**	-	
Organic adjusted operating profit on a CER basis	**199.6**	189.0	**6%**

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

Notes to the financial information for the year ended 31 December 2019 (continued)

14. Alternative performance measures (continued)

b) Adjusted EBITDA

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

During year ended 31 December 2019 the Group adopted IFRS 16 'Leases'. The Group has adopted the modified retrospective approach from the 1 January 2019 transitional date, and therefore comparatives have not been restated (see note 1). Accordingly to enable comparison with prior periods adjusted EBITDA does not exclude the effect of depreciation of right-of-use assets.

Operating profit from continuing operations before exceptional and acquisition related items and before depreciation and amortisation (Adjusted EBITDA) is set out below:

Year Ended 31 December	**2019 US$m**	2018 US$m
Operating profit from continuing operations[1]	**191.0**	147.1
Exceptional and acquisition related items (note 3)	**7.0**	47.8
Adjusted operating profit from continuing operations	**198.0**	194.9
Depreciation of owned property, plant and equipment	**29.9**	29.5
Amortisation of intangible assets	**5.1**	6.9
Adjusted EBITDA	**233.0**	231.3

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

Net debt excluding lease liabilities recognised following the adoption of IFRS 16 at 31 December 2019 was $149.9 million (2018: $222.7 million).

This gives a leverage ratio of net debt excluding lease liabilities to Adjusted EBITDA at 31 December 2019 of 0.6 (2018: 1.0).

Net debt including lease liabilities following the adoption of IFRS 16 at 31 December 2019 was $214.9 million. Adjusted EBITDA excluding the effect of depreciation on right-of-use assets for the year ended 31 December 2019 was $248.2 million. This gives a leverage ratio at 31 December 2019 of 0.9 on an IFRS 16 basis.

For the definition and calculation of net debt see note 11 (f).

c) Underlying effective tax rate

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

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

Notes to the financial information for the year ended 31 December 2019 (continued)

14. Alternative performance measures (continued)

c) Underlying effective tax rate (continued)

Year Ended 31 December	2019 US$m	2018 US$m
Profit before taxation from continuing operations	**166.8**	122.8
Exceptional and acquisition related items (note 3)	**4.4**	47.8
Net interest on pension scheme assets and liabilities	**5.5**	3.8
Underlying profit before taxation from continuing operations	**176.7**	174.4
Taxation charge from continuing operations	**50.5**	49.0
Tax credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**0.4**	4.9
Underlying tax charge from continuing operations	**50.9**	53.9
Underlying effective tax rate	**29%**	31%

d) Adjusted earnings per share

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

Year Ended 31 December	2019 US$m	2018 US$m
Profit from continuing operations	**116.3**	73.8
Non-controlling interests	**(20.1)**	(19.0)
Profit from continuing operations attributable to equity shareholders	**96.2**	54.8
Exceptional and acquisition related items net of non-controlling interests (note 3)	**4.4**	47.6
Tax credit in respect of exceptional and acquisition related items	**-**	(4.8)
Adjusted profit from continuing operations	**100.6**	97.6
Weighted average number of Ordinary Shares	**1,443,824,641**	1,420,069,352
Adjusted earnings per share (cents)	**6.97**	6.87
Adjusted earnings per share (growth %)	**1%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2019 is 1,443,824,641 (2018: 1,420,069,352), the same as that used for basic earnings per ordinary share from continuing operations (see note 7).

Notes to the financial information for the year ended 31 December 2019 (continued)

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. Adjusted free cash flow measures the Group's underlying cash generation that is available to service capital demands.

Year Ended 31 December	2019 US$m	2018 US$m
Change in net debt resulting from cash flows (free cash flow)	**72.3**	24.9
Acquisition of businesses (note 11(e))	**4.9**	1.8
Acquisition of other equity investment	**-**	5.0
Disposal of businesses (note 13)	**(30.7)**	-
Net cash inflow from discontinued operations (note 13)	**(0.8)**	(7.4)
Net cash outflow in respect of exceptional reorganisation costs	**4.3**	20.7
Payments to UK pension schemes	**26.7**	24.0
UK pension consolidation costs	**-**	2.2
Net cash flows in respect of other exceptional and acquisition related items	**6.2**	7.5
Receipts from exercise of share options	**(0.2)**	(3.0)
Dividends paid to equity shareholders	**24.1**	21.1
Tax inflow in respect of adjusted cash flow items	**-**	(0.6)
Adjusted free cash flow	**106.8**	96.2

Notes to the financial information for the year ended 31 December 2019 (continued)

14. Alternative performance measures (continued)

f) Return on capital employed

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

Year Ended 31 December	**2019 US$m**	2018 US$m
Operating profit from continuing operations before exceptional and acquisition related items [1]	**198.0**	194.9
Non-current assets		
Acquired intangible assets	**41.8**	40.0
Property, plant and equipment	**276.3**	282.2
Right-of-use assets	**63.4**	-
Trade and other receivables	**20.1**	21.4
Current assets		
Inventories	**172.5**	185.4
Trade and other receivables	**261.2**	253.8
Current liabilities		
Trade and other payables	**(284.4)**	(302.7)
Lease liabilities	**(14.1)**	-
Non-current liabilities		
Trade and other payables	**(18.2)**	(23.1)
Lease liabilities	**(50.9)**	-
Capital employed	**467.7**	457.0
ROCE	**42.3%**	42.6%

During the year ended 31 December 2019 the Group adopted IFRS 16 'Leases'. The Group has adopted the modified retrospective approach from the 1 January 2019 transitional date, and therefore comparatives have not been restated (see note 1).

Return on capital employed at 31 December 2019 was 42.2% (2018: 42.6%) excluding right-of-use assets and lease liabilities from capital employed in the calculation of ROCE.

[1] Refer to note 3 for details of exceptional and acquisition related items.

15. Post balance sheet events

On 10 February 2020 the Group completed the acquisition of the trade and assets of Pharr High Performance Yarns (see note 12 for further details).

16. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2019 and up to the date of this report:

M Clasper CBE	
R Sharma	
M Allen	(Resigned 23 May 2019)
S Boddie	
N Bull	
A Fahy	
D Gosnell OBE	
H Lu	
F Philip	
A Rosling CBE	

On behalf of the Board
M. Clasper
Chairman
4 March 2020

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