

Coats Group plc

2016 Full Year results

Coats Group plc ('Coats' or the 'Company'), the world's leading industrial thread manufacturer, today announces its unaudited results for the year ended 31 December 2016.

Highlights

- Revenue up 2% on a CER basis to \$1,457 million (down 1% reported). Continued solid growth of 4% in Industrial Division achieved through market share gains, offsetting 8% decline in Crafts Americas.
- Adjusted operating profit up 16% (up 13% reported) through market share gains, cost productivity, controlled overheads and raw material price benefits.
- Adjusted EPS up 23% to 4.91c (reported EPS of 4.28c) with higher operating profit and reduction in tax rate partially offset by unrealised losses on foreign exchange hedges.
- Adjusted free cash flow of \$78 million (2015: \$71 million) as net working capital continues to be controlled effectively.
- Return on capital employed increase of 600bps to 39% (2015: 33%) mainly as a result of higher profitability.
- Acquired Gotex and Fast React; both performing well and ahead of management expectations (\$3m operating profit contribution in 2016).
- Cessation of regulatory action for UK Coats and Brunel pension schemes, representing approximately 90% of UK pension liabilities and scheme members.
- Rajiv Sharma became Group CEO on 1 January 2017, previously CEO Industrial Division.
- The Board recommends a final dividend of 0.84 US cents per share payable in May 2017, subject to shareholder approval, which represents a pro forma full year 2016 dividend of 1.25 c per share.

<i>* Denotes a KPI</i>		2016	2015 ²	Change	CER change ¹	Organic change ¹
Revenue	reported	\$1,457m	\$1,472m	(1)%	2%	* 1%
Operating profit	reported	\$153m	\$111m	38%		
	adjusted ¹	\$158m	\$140m	13%	16%	* 14%
Basic earnings per share	reported	4.28c	(3.61)c	n/a		
	adjusted ¹	4.91c	4.00c	* 23%		
Free cash flow	adjusted ¹	* \$78m	\$71m	10%		
Return on capital employed (ROCE) ¹		* 39%	33%	600bps		
Dividend per share (pro-forma full year)		1.25c	-			

¹ Non-statutory measures (Alternative Performance Measures) are reconciled to the nearest corresponding statutory measure in note 14.

² Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 13)

Commenting on Coats full year 2016 results Rajiv Sharma, Group Chief Executive, said:

'Coats delivered a strong performance in 2016 with operating profit growth of 16%, despite challenging market conditions. Uncertainty, volatility and pricing pressures characterised 2016. Group organic sales growth of 1%, was delivered by share gains in the Industrial Division, which was supported by the introduction of new products and adoption of our digital tools. We delivered productivity and procurement gains, and tightly managed our

overheads which had a positive operational gearing effect in the Industrial Division. We completed the acquisitions of Gotex and Fast React during the year, both of which have leading positions in their markets and which are already delivering strong growth ahead of management expectations under Coats' ownership. In the Crafts division, challenging market conditions continued, especially within the handknittings segment, although showed an improving trend in the second half of the year, and cost actions were taken to manage margins.

'Following the pensions settlement agreement with the Trustees of the Coats UK and Brunel pension schemes and the cessation of regulatory action by TPR related to those schemes, we have recommended a final dividend of 0.84 US cents per share for 2016, which equates to a pro-forma full year dividend of 1.25c per share. It is our intention to pursue a progressive dividend policy.

'We enter 2017 on a solid footing however remain cautious about market conditions. We expect to continue to deliver growth in line with management's expectations through our initiatives to deliver market share gains, productivity improvements and tight cost control. We will also continue to focus on cash flow generation in order to allow us to continue to reinvest in organic and inorganic growth opportunities.'

Conference call

Coats Management will discuss this report in a webcast / conference call with analysts and investors at 0900 GMT today (24 February 2017). The webcast can be accessed via www.coats.com/investors/fy16. The conference call can be accessed by dialling +44 (0)20 3059 8125 and using participant code 'Coats'. The webcast will also be made available in archive form on www.coats.com.

Enquiry details

Investors	Rob Mann	Coats Group plc	+44 (0)20 8210 5175
Media	Richard Mountain / Nick Hasell	FTI Consulting	+44 (0)20 3727 1374

This announcement contains inside information for the purposes of the Market Abuse Regulation.

About Coats Group plc

Coats is the world's leading industrial thread manufacturer and a major player in the Americas textile crafts market. At home in some 60 countries, Coats employs 19,000 people across six continents. Revenues in 2016 were US\$1.5bn. Coats' pioneering history and innovative culture ensure the company leads the way around the world: providing complementary and value added products and services to the apparel and footwear industries; applying innovative techniques to develop high technology Performance Materials threads and yarns in areas such as automotive, composites and fibre optics; and extending the crafts offer into new markets and online. Headquartered in the UK, Coats has a premium listing on the London Stock Exchange. To find out more about Coats visit www.coats.com.

Summary

In the following commentary all references to revenue are on a CER basis and all references to operating profit are on an adjusted CER basis, unless otherwise stated (Alternative Performance Measures are reconciled to the nearest corresponding statutory measure in note 14).

	2016 reported \$m	2015 reported \$m	Reported inc/(dec) %	2015 CER ¹ \$m	CER ¹ inc/(dec) %	Organic ⁴ inc/(dec) %
Revenue²						
Industrial	1,221	1,213	1%	1,176	4%	2%
Crafts	236	260	(9)%	256	(8)%	(8)%
Total	1,457	1,472	(1)%	1,432	2%	1%
Adjusted operating profit^{2,3}						
Industrial	154.7	135.2	14%	130.7	18%	16%
Crafts	10.8	14.9	(28)%	14.5	(26)%	(26)%
UK pension admin	(7.6)	(10.2)		(9.1)		
Group	157.9	139.9	13%	136.1	16%	14%
Adjusted operating margin						
Industrial	12.7%	11.2%	150bps	11.1%	160bps	150bps
Crafts	4.6%	5.7%	(120)bps	5.7%	(110)bps	(110)bps
Group	10.8%	9.5%	130bps	9.5%	130bps	130bps

- 1 2015 figures restated at 2016 exchange rates
2 Includes contributions from bolt-on acquisitions made in the year
3 On an adjusted basis which excludes exceptional and acquisition related items
4 On a CER basis excluding contributions from bolt-on acquisitions

Coats generated revenues of \$1,457 million in 2016, a 2% CER underlying growth on 2015 (\$1,432 million). Industrial sales grew 4% driven by share gains in Apparel and Footwear, product innovation, geographic expansion in Performance Materials (previously Speciality), along with the impact of bolt-on acquisitions. Organic sales growth in the Industrial Division of 2% was marginally behind the 3% growth reported in H1 as mixed demand from clothing retailers and manufacturers in US consumer durable markets continued throughout the later part of the year. Crafts sales fell 8% due to a sharp contraction in the US handknitting market predominantly caused by a mild North American winter, although this contraction slowed in the latter part of 2016 (H2 decline 4%).

Group adjusted operating profit increased 16% to \$158 million (2015: \$136 million), although this was a lower growth rate than the strong performance delivered in H1 of 24%. Industrial full year adjusted operating profit grew 18% and margins were up 160 basis points (bps) to 12.7% due to volume growth, lower raw material prices, productivity and procurement improvements, and tight cost control. Excluding acquisitions, Industrial adjusted operating profit grew by 16%.

The 26% decline in Crafts Americas adjusted operating profit was primarily due to lower US handknittings sales. Crafts Americas margins decreased 110bps to 4.6% due to lower raw material prices that benefited margins in H2 2015 but was partially offset by tight cost control in a challenging market. The loss making UK Crafts business has now been closed and is classified as discontinued. The overhead reduction programme, initiated in 2015 following the sale of EMEA Crafts, continued to deliver in line with management expectations, although some savings are being reinvested to support growth.

Performance on a reported basis was impacted by the relative strength of the US Dollar compared to 2015, resulting in a 1% reduction in reported revenues year on year (vs a 2% growth on a CER basis), and 13% growth in adjusted operating profit (vs a 16% 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 US Dollar against Sterling, Brazilian Real, Indian Rupee, Mexican Peso, and Turkish Lira with a smaller absolute impact on operating profit compared to revenues. Furthermore, if the reported 2016 results had been translated at exchange rates as at 31 December 2016 then Group revenue and adjusted operating profit would have been \$28m and \$6m lower respectively.

Financial summary

Adjusted earnings per share ('EPS') increased 23% to 4.91 cents (2015: 4.00 cents) with higher adjusted operating profits (16% growth) and a reduction in tax rate (1% reduction in underlying rate) partially offset by unrealised losses on forward foreign exchange contracts of \$5 million, in part due to the depreciation of Sterling vs US Dollar. The Company generated a reported attributable profit from continuing operations of \$63.8m million compared to \$25.4 million in 2015, as a result of a lower level of exceptional items (\$23 million decrease in year net of tax), and higher adjusted operating profit (\$18 million increase in 2016).

In 2016 Coats generated an adjusted free cash flow of \$78 million compared to \$71 million in 2015. Higher operating profits and stable capital expenditure more than offset a marginal outflow in working capital in the year which included a year-on-year reduction in sales days outstanding. Total net cash for the Group at 31 December 2016 was \$78 million, a year-on-year reduction of \$162 million, primarily due to \$74 million foreign exchange losses on the parent group balance, \$36 million spend on acquisitions and \$99m UK pension scheme payments. Net cash of \$78 million for the Group consisted of parent Group cash \$343 million (2015: \$505 million) and operating net debt of \$265 million (2015: \$264 million). Group net assets reduced to \$91 million (2015: \$354 million), a reduction of \$263m which was driven by \$325 million of actuarial losses on defined benefit pension schemes (2015: \$67 million gain), offset partially by the Group's reported profit of \$71 million (2015: \$39 million loss).

Return on capital employed increased to 39%, from 33% at 31 December 2015, due to higher operating profits along with a \$13 million reduction in capital employed.

UK Pensions Regulator investigations

On 17 February 2017, it was announced that the Company had signed binding settlement agreements with the Trustees of the UK Coats Pension Plan and Brunel Holdings Pension Scheme. The Company has received written assurances from the UK Pensions Regulator that on completion of the settlement its regulatory action will automatically cease in relation to these two schemes under the warning notices that it issued to the Company in 2013 and 2014. Following a series of Company determined corporate steps completion will occur by early March 2017.

The UK Coats Pension Plan and Brunel Holdings Pension Scheme represent approximately 90% of the Company's UK pension liabilities¹ and schemes' members.

The Trustees of the Staveley scheme have not to date accepted the Company's proposal regarding that scheme and currently the UK Pension Regulator's investigation in connection with that scheme remains open. The proposal remains open to the Trustee of the Staveley scheme and the parent group cash will be used for this purpose.

¹ IAS19 position at 31/12/16

Strategic progress

As previously reported, in June 2016, Coats announced the acquisitions of Gotex and Fast React Systems for an initial consideration of \$28 million and \$7 million respectively. Gotex designs and manufactures high-tech industrial yarns and tapes used to protect, reinforce and insulate cables and pipes in the global telecommunications, energy and oil and gas sectors. Gotex's market leading fibreglass technology and products will complement Coats' existing fibre optic product range, while Coats will support Gotex in further expanding into high-growth markets. Fast React is a provider of software solutions and expertise to manufacturers and retailers in the global apparel and footwear industries. This will enable Coats Global Services to offer an even wider range of operational improvement tools to customers and follows the

successful acquisition of GSD in 2015, which has more than doubled like for like sales in 2016 when compared to the 8 months of post-acquisition ownership in 2015.

Both Gotex and Fast React are performing strongly and ahead of management expectations having delivered \$3m of operating profit in the year since acquisition by leveraging Coats' global reach and strong customer relationships.

Following on from the disposal of the EMEA Crafts business last year, Coats has closed its loss-making UK Crafts operations which is classified as discontinued operations. See note 13 for more details.

Post Balance Sheet event

On 22 January 2017, the main distribution centre for the US Crafts business in Albany, Georgia suffered significant damage following a tornado strike, including one building which housed sourced products for yarns, threads and crafting implements. The decision had been taken to close the centre at the time and there were no injuries to Coats' personnel. Although buildings in the centre are leased, our initial estimate is that the tornado has damaged a significant proportion of the stock as well as causing disruption to our logistics activities. Given the extent of the damage temporary alternative premises have been found but operations are not expected to be fully back to normal until later in Q2.

The Group's insurance policies are expected to be sufficient to cover both the loss of inventory and physical assets. Although sales will be adversely impacted in the first half, lost profits as well as the incremental costs of re-establishing operations are included in the Group's business interruption insurance cover.

Corporate changes

As previously reported, on 24 June 2016, the Company de-listed from the New Zealand and Australian stock exchanges and now has a single listing on the London Stock Exchange.

Simon Boddie joined the Company in July 2016 as Chief Financial Officer and Executive Director and in October 2016 Fran Philips joined as a Non-Executive Director.

On 1 January 2017, Rajiv Sharma, previously CEO Industrial Division, took over as Group Chief Executive. Key focus areas of future strategy will relate to simplification activity, innovation and further development of digital capabilities all of which will be an evolution of the existing successful strategy. As such, since the start of 2017 certain strategic changes to the Group have been announced with immediate effect. These include renaming of the Speciality business to Performance Materials, in order to better reflect the present and future state of this key growth area of the business. In addition, there has been consolidation of the previous Management Board, Industrial and Crafts Leadership Teams into a single body; the Group Executive Team.

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 appropriately fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. Over time, and as underlying earnings and cash flows increase, the Board intends to pursue a progressive dividend policy.

Following the pensions settlement agreement with the Trustees of the UK Coats and the Brunel pension schemes and the cessation of regulatory action by the UK Pensions Regulator (TPR) related to those schemes, the Board has decided to commence the payment of ordinary dividends. The Board proposes to pay an ordinary final dividend of 0.84 US cents per share, subject to shareholder approval, on 30 May (payment date) to shareholders on the register on 5 May (record date), with an ex-dividend date of 4 May.

If the pensions settlement had been in place throughout the financial year an interim dividend of 0.41 c would have also been paid during 2016. Therefore, the pro-forma full year dividend of 1.25 c per share represents dividend earnings cover (on an adjusted EPS basis) of 3.9x times and cash cover, post pensions recurring deficit contribution payments, of 2.6x.

The ordinary final dividend will be paid in cash, in Sterling, converted at the closing exchange rates on 10 May. Shareholders will also have the option to have the dividend paid in either US dollars, Australian dollars, or New Zealand dollars. Details of these options will be sent to shareholders during March 2017 and elections for alternative payment to Sterling must be received by 8 May. If no response is received, the default payment currency of the dividend will be Sterling.

Outlook

We enter 2017 on a solid footing however remain cautious about market conditions. We expect to continue to deliver growth in line with management's expectations through our initiatives to deliver market share gains, productivity improvements and tight cost control. This growth is likely to be weighted to the second half of the year due to strong profit growth in H1 2016, and may also be subject to further foreign exchange headwinds on translation that have been seen in recent periods. We will also continue to focus on cash flow generation in order to allow us to continue to reinvest in organic and inorganic growth opportunities.

Operating Review

In the following commentary all references to revenue are on a CER basis and all references to operating profit are on an adjusted CER basis, unless otherwise stated

Industrial

	2016 Reported \$m	2015 Reported \$m	Reported inc/(dec) %	2015 CER ¹ \$m	CER ¹ inc/(dec) %	Organic ⁶ inc/(dec) %
Revenue²						
By business						
Apparel and Footwear ³	975	979	0%	949	3%	2%
Performance Materials ⁵	246	233	6%	227	9%	3%
Total	1,221	1,213	1%	1,176	4%	2%
By region						
Asia	720	715	1%	700	3%	3%
Americas	249	266	(6)%	254	(2)%	(2)%
EMEA	252	231	9%	221	14%	7%
Total	1,221	1,213	1%	1,176	4%	2%
Segment profit^{2,4}	154.7	135.2	14%	130.7	18%	16%
Segment margin^{2,4}	12.7%	11.2%	150bps	11.1%	160bps	150bps

¹ 2015 like-for-like restates 2015 figures at 2016 exchange rates

² Includes contribution from bolt-on acquisitions made during the period

³ Includes accessories, zips and trims and global services

⁴ On an adjusted basis which excludes exceptional and acquisition related items.

⁵ Previously named Speciality

⁶ On a CER basis excluding contributions from bolt-on acquisitions

Revenue in Apparel and Footwear (A&F) grew 3% in 2016 on a CER basis. H2 sales growth reduced marginally to 2% following 3% growth in H1. In a challenging pricing environment sales growth was driven by market share gains as the underlying market growth was adversely impacted by softer retailer demand throughout the year. Coats' ability to continue to take market share was driven by several factors including deepening its relationships with retailers and brand owners through its global accounts programme, and with manufacturers, through the increasing adoption of digital services. Two years after the Company rolled out an eCommerce

platform it is now live in over 25 countries, used by over 12,000 customers (manufacturers) and accounts for over 70% of our total thread orders. It has also enabled a reduction in back office headcount. In addition, market share gains were realised through the launch of innovative new products, for example in the denim and active sportswear segments.

Performance Materials⁵ revenue grew 9% in the year on a CER basis, including contributions from bolt-on acquisitions, with organic growth of 3% which was impacted by challenging market conditions in US consumer durable markets, in traditional markets such as outdoor goods, where destocking was prevalent. Emerging markets continued to deliver good sales growth through geographic expansion of existing products, such as furniture and upholstery. The business also continued to grow sales in new, innovative products, for example in the fibre optics sector and protective clothing, and entered new end-markets such as carbon composites. This resulted in H2 growth of 13% driven by incremental acquisition revenue (Gotex) along with an improvement in organic growth to 4% (H1 3% growth).

By region, full year revenue in Asia grew by 3% which is in line with H1 performance, with demand remaining solid in A&F despite some specific market headwinds (for example India demonetisation in H2). In the Americas revenues were marginally down with solid growth in A&F sales in Latin American markets such as Mexico and Colombia offset by the continued slowdown in some US consumer durable markets. Sales in EMEA rose 14% (7% excluding acquisitions) which was a continuation of strong H1 growth, following a challenging 2015, with growth in key A&F markets and strong performance in Performance Materials⁵.

Industrial operating profit increased 18% to \$155 million (2015: \$131 million) and margins increased 160bps to 12.7%. This reflected good volume growth driving a positive operational gearing impact, a reduction in material costs due to the lower average oil price compared to 2015 (although this benefit started to subside in H2), ongoing productivity savings, non-raw material procurement improvements along with benefits from business reorganisation activity (for example the 2015 Mexico production site relocation). These factors more than offset the challenging pricing environment allowing strong improvements in gross margin, and control of its cost base despite the structural wage and energy inflation that the Group faces across the many countries in which it operates.

Acquisitions

As previously reported, in June 2016, Coats completed the acquisition of Gotex, a company that designs, manufactures and sells a range of innovative, high performance industrial textiles to serve industries such as telecommunications (fibre optic cables), energy and oil and gas. Based near Barcelona, Spain, Gotex is a market leader in coated fibreglass yarns with proprietary technology that enables manufacturing at significantly higher speeds than conventional technology. This will complement Coats' aramid product range and strengthen Coats' presence in fibre optics. Coats will support Gotex in further expanding into high-growth markets by leveraging Coats' unrivalled geographic footprint, breadth of global customer relationships and strong corporate brand. In 2015, Gotex generated sales of approximately €14 million. The initial consideration was US\$28 million, with a further payment of up to US\$4 million after a two-year period, contingent on Gotex achieving certain performance targets.

In addition, in May 2016, Coats acquired Fast React, a UK based provider of software solutions and expertise to manufacturers and retailers in the apparel and footwear industries to improve their operational efficiency. The business generated revenues of approximately £4 million in 2015 (\$5 million). The initial consideration was US\$7 million, with further payments of up to US\$4 million over a three-year period, contingent on Fast React achieving certain performance targets. The transaction enables Coats Global Services to offer an even wider range of productivity improvement tools to customers and follows the acquisition of GSD in May 2015.

Both Gotex and Fast React have performed well under Coats ownership, having delivered \$16m of sales and \$3m of operating profit in 2016 by leveraging Coats global reach and strong customer relationships.

Crafts

	2016 Reported \$m	2015 Reported ¹ \$m	Reported inc/(dec) %	2015 CER ^{1,2} \$m	CER ² inc/(dec) %
Revenue					
By business					
Handknittings	121	141	(14)%	140	(13)%
Needlecrafts ³	115	119	(4)%	116	(1)%
Total	236	260	(9)%	256	(8)%
By region					
North America	176	198	(11)%	198	(11)%
Latin America	60	62	(2)%	58	4%
Total	236	260	(9)%	256	(8)%
Segment profit⁴	10.8	14.9	(28)%	14.5	(26)%
Segment margin⁴	4.6%	5.7%	(120)bps	5.7%	(110)bps

1 Restated to exclude the results of UK Crafts

2 2015 like-for-like restates 2015 figures at 2016 exchange rates.

3 Includes other textile craft products such as consumer sewings and lifestyle fabrics.

4 Pre- exceptional items.

Crafts Americas revenues declined 8% to \$236 million on a CER basis in 2016 (2015: \$256 million). Handknitting sales declined 13% due to a sharp decline in the US handknitting market. Based on feedback from Coats major customers, the mild North American winter was a contributing factor in H1, while systems issues at a key customer also negatively impacted demand. In H2 there was a continued improvement in handknitting sales volumes resulting in a reduced CER decline of 5%. Revenue in Needlecrafts decreased 1% but with continued growth in Coats' lifestyle fabrics sales during the period. Revenues in Latin America grew 4%, with marginal volume growth supported by pricing gains.

Following the continued decline in North America sales and raw material price increases, profit in Crafts Americas for the year reduced to \$11 million (2015: \$15 million) and margins decreased by 110bps to 4.6%. Margin downside was limited by cost actions, such as reducing discretionary spend and tightly controlling overheads.

UK Crafts

Following the disposal of the EMEA Crafts business in 2015, Coats has closed its loss-making UK Crafts operations which is reported as a discontinued item in the full year 2016 results. In 2016 the business generated revenues of \$8.8 million and an operating loss of \$4.5 million. The closure has no impact on the ongoing Americas Crafts business.

Financial review

Overhead reduction programme

As previously reported, following the disposal of EMEA Crafts in July 2015, Coats reviewed elements of its cost base to establish the appropriate cost structure for a smaller and less complex Group. As a result, \$14.1 million of restructuring costs were recognised in 2015. The programme continued to deliver in line with management expectations during 2016 and full benefits are expected to be realised by H1 2017, although a significant proportion of these savings will be reinvested to support the Group's growth plans.

Exceptional and acquisition related items

Net exceptional and acquisition related items before taxation and discontinued items were \$4.6 million in 2016. These are related to Gotex and Fast React transaction costs, the amortisation of intangible assets acquired, and contingent consideration linked to continued employment. In 2015 net exceptional costs before taxation and discontinued items totalled \$29.9 million and mainly related to the consolidation of Coats' Mexican operations,

the initial provision for the overhead reduction programme and a provision for remedial work on the Lower Passaic River ('LPR'), New Jersey, USA. There are no further significant developments in relation to LPR to report. See note 10 for further details.

Non-operating results

Net finance costs in the period were \$31.6 million, marginally up from \$31.2 million in 2015. There was a reduction in interest on borrowings from \$17 million to \$14 million in 2016 partly due to fixed interest rate swaps coming to an end. There was approximately \$5 million of unrealised losses on forward foreign exchange contracts in part due to the depreciation of Sterling vs US Dollar. With the movement of all the parent group cash (committed to support the Company's pension schemes) to Pound Sterling from New Zealand, Australian and US Dollars in H2 2015, interest income on the balance declined to \$2 million in 2016 (2015: \$5 million). IAS19 pensions interest charges reduced from \$17 million to \$14 million as a function of the lower pensions accounting deficit at the end of 2015.

The taxation charge for 2016 was \$46.8 million (2015: \$43.7 million) resulting in a reported tax rate of 38% (2015: 54%). Excluding exceptional and acquisition related items, the impact of IAS19 finance charges and foreign exchange gains/losses on the parent group cash balance, the underlying effective rate on pre-tax profits reduced by 100bps to 34% (2015: 35%). This was driven by a reduction in unrelieved losses, together with a favourable change in profit mix for the period.

Profit attributable to minority interests increased to \$11.9 million (2015: \$11.2 million) and is predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests).

Adjusted EPS increased 23% to 4.91 cents (2015: 4.00 cents). The higher operating profit and improvements in the underlying tax rate were partially offset by the \$5m unrealised loss on forward foreign exchange contracts. Reported EPS of 4.60 cents compares to 1.81 cents in 2015 (for continuing operations); last year's result was impacted by a higher level of exceptional costs (there was a reported loss per share of 3.61 cents in 2015 due to a loss on discontinued items related to the EMEA Crafts business).

Total other comprehensive income and expense for the year was significantly impacted by actuarial losses in relation to the Group's defined benefit pension schemes of \$325 million (2015: \$67 million gain), as a result of changes to actuarial assumptions and asset returns.

Investment

Capital expenditure during the year, in addition to ongoing maintenance requirements, focused on new product development, process improvements, capacity expansion, health and safety, and environmental spend. The latter, which includes building effluent treatment plants, helps ensure Coats maintains its strong corporate responsibility credentials in the Industry. Total capital spend amounted to \$40 million (2015: \$44 million) and was 1.0 times depreciation and amortisation.

In order to support our future growth strategy and reinforce our strong environmental compliance credentials we have made the decision to increase our capital expenditure in 2017 to around 1.5 times depreciation. This spend is expected to be weighted towards the second half of the year. This investment will be funded by our operating cash flow which will continue to benefit from the management and discipline which has been in place in recent years.

Cash flow

Coats generated a \$78 million adjusted free cash inflow in 2016, compared to \$71 million in 2015.

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was \$199 million, up from \$183 million in 2015 (on a reported basis) due to the factors that contributed to the increase in pre-exceptional operating profit outlined earlier in the report.

There was a \$3 million net working capital outflow in 2016 (2015: \$19 million outflow). The movement in net working capital in the year was mainly due to increases in inventory in order to enhance service levels and lower trade creditors as we continued the implementation of a revised and consistent payment approach to suppliers to ensure we treat all parties in the supply chain in an ethical and sustainable way. These reductions were

offset by lower debtors (reduction in sales days outstanding offsetting increased trading activity) and the timing of payments to other operating related creditors (for example rebate and indirect taxes payment timings).

Interest paid decreased to \$14 million (2015: \$15 million) as a result of a reduction in interest rates on borrowings. Tax paid increased year-on-year from \$49 million to \$58 million in 2016 as a result of higher profitability and increased withholding taxes from the repatriation of locally held cash around the Group. Payments to minority interests increased year-on-year to \$13 million (2015: \$10 million), also as a result of the increase in repatriating cash held locally around the Group.

There was an \$84 million free cash outflow in 2016 (2015: \$21 million outflow). This included UK pension recovery payments including administrative expenses of \$99 million (2014: \$34 million), of which approximately \$19 million was paid to the Coats Plan, \$53 million to the Staveley scheme (of which \$46 million was a non-recurring contribution), and \$27 million was paid to the Brunel scheme (of which \$20 million was a non-recurring contribution). There was a \$3 million outflow (2015: \$8 million) relating to the purchase of own shares for the Employee Benefits Trust. This was to cover the continuing requirements for a share-based long term incentive scheme (in line with the standards of a FTSE 250 company) for senior employees, that more clearly aligns their interests with those of shareholders. Exceptional items included \$4 million spent on the pensions investigation (2015: \$9 million), and \$8 million on the overhead reduction programme. In addition, \$36 million was spent on the acquisition of Gotex and Fast React (2015: \$6 million in relation to the GSD acquisition).

Overall, net cash for the Group reduced by \$162 million in the year to \$78 million. This predominantly consisted of \$84 million free cash outflow (as referred to above), and \$77 million foreign exchange movements (\$74 million of which is in relation to parent group cash).

Balance sheet

As referred to above, the Company had a net cash position of \$78 million at 31 December 2016 (31 December 2015: \$241 million). This included parent group cash, held in Sterling and committed to support the Group's three UK pension schemes (Sterling liabilities) of \$343 million, compared to \$505 million at the end of 2015. The reduction was primarily due to \$80 million of pensions recovery payments (including administrative expenses) made to the Brunel and Staveley schemes in 2016 and, in US Dollar terms, due to the depreciation of Sterling (\$74 million), although there is no real impact as the cash is matched to the Sterling denominated liabilities.

The Coats operating business had a net debt position of \$265 million at the end of 2016 (see note 11), a marginal increase of \$1 million from 31 December 2015 (\$264 million). An important metric for the operating business is the leverage ratio of net debt (excluding parent group cash) to EBITDA. Net debt at 31 December 2016 was 1.3 times EBITDA for the year (1.4 times at 31 December 2015).

Pensions and other post-employment benefits

The net obligation for the Group's retirement and other post-employment defined benefit liabilities, on an IAS19 financial reporting basis, was \$627 million as at 31 December 2016, up from \$469 million at 31 December 2015. The increase in liabilities in the year of \$158 million primarily consisted of actuarial losses of \$325 million and Income Statement charges of \$31 million, offset by cash payments into the UK schemes of \$99 million and foreign exchange gains on Sterling liabilities of \$94 million.

The deficits in the Group's UK defined benefit schemes, namely the UK Coats Plan, and Brunel and Staveley schemes, increased to \$576 million (£467 million) from the position at 31 December 2015 (\$423 million, £286 million). This was primarily due to an increase in liabilities largely driven by a 110bps decrease in the discount rate to 2.5% (derived using a yield curve approach, based on Sterling AA corporate bonds) as well as a 35bps increase in the rate of inflation to 3.3% (based on a market implied long term rate). The increase in liabilities was partially offset by a better than expected increase to asset values. Furthermore, in US Dollars the value of the UK net deficits have declined due to the weakening of Sterling over 2016. The reduction in the Staveley deficit was due to the £34 million payment made as part of the deficit repair plan agreed earlier this year. A £15m payment was also made to the Brunel scheme in the second half of 2016.

IAS19 deficit	31 Dec	31 Dec	31 Dec	31 Dec
	2016	2015	2016	2015
	\$m	\$m	£m	£m
Coats Plan	467	264	378	179
Brunel	64	72	52	48
Staveley	45	87	37	59
UK defined benefit schemes	576	423	467	286
Other Coats net employee benefit obligations	51	46		
Total	627	469		

Pensions

Investigations

Further to its announcement of 16 December 2016, it was announced on 17 February 2017 that the Company had signed binding settlement agreements with the Trustees of the UK Coats Pension Plan and the Brunel Holdings Pension Scheme. The Company has received written assurances from the UK Pensions Regulator that on completion of the settlement its regulatory action will automatically cease in relation to these two schemes under the warning notices that it issued to the Company in 2013 and 2014. Following a series of Company determined corporate steps completion will occur by early March 2017.

The UK Coats Pension Plan and the Brunel Holdings Pension Scheme represent approximately 90% of the Company's UK pension liabilities¹ and schemes' members.

The Trustee of the Staveley scheme has not to date accepted the Company's proposal regarding that scheme and currently the UK Pension Regulator's investigation in connection with that scheme remains open. The proposal remains open to the Trustee of the Staveley scheme and the parent group cash will be used for this purpose.

The Company made proposals to the Trustees of each of the three UK schemes (including the Staveley Scheme), on a comparable basis, comprising (1) upfront payments totalling £329.5 million (\$406 million) from the Company's parent group cash (inclusive of the agreed Recovery Plan contributions paid to the Brunel and Staveley schemes since 1 January 2016); and (2) annual deficit recovery contributions totalling £17.5 million (\$22 million) including estimated administration expenses and levies.

The principal commercial terms of the Settlement with the UK Coats Pension Plan and Brunel Holdings Pension Scheme are:

- Financial support on the basis of a combined technical provisions deficit as at 1 April 2015 of £485 million (\$598 million) to be repaired by:
 - upfront payments totalling £255.5 million (\$315 million) from the Company's parent group cash paid directly into the schemes (inclusive of the agreed Recovery Plan contributions paid to the Brunel scheme since 1 January 2016); and
 - annual deficit contributions totalling £14.5 million (\$18 million), including estimated administration expenses and levies to be paid until 2028.
- The schemes will have access to sponsor support from Coats for future funding needs together with a Company guarantee.
- The next triennial valuation date for these schemes is to be 31 March 2018.

As a result of the settlement with the UK Coats and Brunel schemes, the principal impacts on the financial statements are anticipated to be as follows:

- Cash flow: In 2017, the UK pension deficit reduction payments (including administrative expenses) are expected to be in the region of £257 million (\$317 million) (2016: \$99 million), being £255.5 million (\$315 million) agreed settlement with the UK Coats and Brunel schemes less certain scheduled recovery payments made during 2016 of £20 million (\$25 million), along with the latest agreed on-

going payments including expenses of £21 million (\$26 million). These anticipated deficit recovery payments will not impact adjusted free cash flow.

- IAS 19 deficits (UK schemes): on a pro-forma basis (factoring in only cash payments made into the schemes as part of the UK Coats and Brunel settlements), the 31 December 2016 IAS 19 deficits for the Group of £467 million (\$576 million) would reduce to £232 million (\$286 million) following the upfront payments of £235 million (\$290 million) made into the UK Coats and Brunel schemes following completion of the settlements on those schemes.
- Parent group cash: in line with the above, on a pro-forma basis, the Group net cash balance of £278 million (\$343 million) as at 31 December 2016 would reduce to £43 million (\$53 million) following the upfront payments of £235 million (\$290 million) made into the UK Coats and Brunel schemes following completion of the settlements on those schemes. Cash remains reserved for the Staveley scheme settlement, in line with previous announcements.

The impacts on adjusted free cash flow, operating profit and adjusted EPS are not expected to be significant.

¹ IAS19 position at 31/12/16

Triennial funding valuations

As noted above the next triennial funding valuations for the UK Coats and Brunel schemes have an effective date of 31 March 2018 and will need to be agreed by 30 June 2019. The Staveley Scheme's triennial funding valuation has an effective date of 31 December 2016 and would need to be agreed by 31 March 2018.

Coats Group plc
Consolidated income statement

For the year ended 31 December

				2016		2015 *	
	Notes	Before exceptional and acquisition related items Unaudited US\$m	Exceptional and acquisition related items Unaudited US\$m	Total Unaudited US\$m	Before exceptional and acquisition related items Audited US\$m	Exceptional and acquisition related items Audited US\$m	Total Audited US\$m
Continuing operations							
Revenue		1,457.3	-	1,457.3	1,472.5	-	1,472.5
Cost of sales		(892.3)	-	(892.3)	(921.2)	(16.5)	(937.7)
Gross profit		565.0	-	565.0	551.3	(16.5)	534.8
Distribution costs		(197.2)	-	(197.2)	(196.8)	-	(196.8)
Administrative expenses		(210.1)	(4.6)	(214.7)	(215.3)	(21.1)	(236.4)
Other operating income		0.2	-	0.2	0.7	9.2	9.9
Operating profit		157.9	(4.6)	153.3	139.9	(28.4)	111.5
Share of profits of joint ventures		0.8	-	0.8	1.5	(1.5)	-
Investment income	4	4.3	-	4.3	10.5	-	10.5
Finance costs	5	(35.9)	-	(35.9)	(41.7)	-	(41.7)
Profit before taxation	3	127.1	(4.6)	122.5	110.2	(29.9)	80.3
Taxation	6	(47.2)	0.4	(46.8)	(46.2)	2.5	(43.7)
Profit from continuing operations		79.9	(4.2)	75.7	64.0	(27.4)	36.6
Discontinued operations							
Loss from discontinued operations	13	(3.3)	(1.2)	(4.5)	(13.2)	(62.8)	(76.0)
Profit/(loss) for the year		76.6	(5.4)	71.2	50.8	(90.2)	(39.4)
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		64.7	(5.4)	59.3	39.6	(90.2)	(50.6)
Non-controlling interests		11.9	-	11.9	11.2	-	11.2
		76.6	(5.4)	71.2	50.8	(90.2)	(39.4)
Earnings per share (cents)							
Continuing operations							
Basic				4.60			1.81
Diluted				4.53			1.81
Continuing and discontinued operations							
Basic				4.28			(3.61)
Diluted				4.22			(3.61)
Adjusted earnings per share	14			4.91			4.00

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

Coats Group plc

Consolidated statement of comprehensive income

Year ended 31 December	2016 Unaudited US\$m	2015 Audited US\$m
Profit/(loss) for the year	71.2	(39.4)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on retirement benefit schemes	(324.8)	67.2
Tax on items that will not be reclassified	0.1	(3.4)
	(324.7)	63.8
Items that may be reclassified subsequently to profit or loss:		
Losses on cash flow hedges arising during the year	(0.9)	(1.7)
Transferred to profit or loss on cash flow hedges	1.3	3.0
Exchange differences on translation of foreign operations	1.3	(66.2)
Exchange differences transferred to profit or loss on sale of businesses	-	7.5
Exchange differences transferred to profit or loss on sale of investment	-	(0.5)
	1.7	(57.9)
Other comprehensive income and expense for the year	(323.0)	5.9
Net comprehensive income and expense for the year	(251.8)	(33.5)
<u>Attributable to:</u>		
EQUITY SHAREHOLDERS OF THE COMPANY	(263.0)	(44.0)
Non-controlling interests	11.2	10.5
	(251.8)	(33.5)

Coats Group plc

Consolidated statement of financial position

	Notes	31 December 2016 Unaudited US\$m	31 December 2015 Audited US\$m
Non-current assets			
Intangible assets		291.8	261.2
Property, plant and equipment		265.9	273.0
Investments in joint ventures		11.0	10.8
Available-for-sale investments		1.1	1.5
Deferred tax assets		18.1	12.5
Pension surpluses		50.8	52.5
Trade and other receivables		16.1	16.4
		<u>654.8</u>	<u>627.9</u>
Current assets			
Inventories		205.8	204.0
Trade and other receivables		248.4	261.9
Available-for-sale investments		0.2	0.2
Pension surpluses		6.7	6.6
Cash and cash equivalents	11(e)	476.5	649.9
Non-current assets classified as held for sale		0.2	-
		<u>937.8</u>	<u>1,122.6</u>
Total assets		<u>1,592.6</u>	<u>1,750.5</u>
Current liabilities			
Trade and other payables		(310.8)	(320.7)
Current income tax liabilities		(8.9)	(12.5)
Bank overdrafts and other borrowings		(7.7)	(20.2)
Retirement benefit obligations:			
- Funded schemes		(309.6)	(33.9)
- Unfunded schemes		(6.2)	(6.2)
Provisions		(17.1)	(44.4)
		<u>(660.3)</u>	<u>(437.9)</u>
Net current assets		<u>277.5</u>	<u>684.7</u>
Non-current liabilities			
Trade and other payables		(15.8)	(12.4)
Deferred tax liabilities		(31.7)	(33.0)
Borrowings		(390.6)	(389.1)
Retirement benefit obligations:			
- Funded schemes		(272.0)	(394.1)
- Unfunded schemes		(96.4)	(94.2)
Provisions		(34.8)	(35.8)
		<u>(841.3)</u>	<u>(958.6)</u>
Total liabilities		<u>(1,501.6)</u>	<u>(1,396.5)</u>
Net assets		<u>91.0</u>	<u>354.0</u>
Equity			
Share capital	8	127.0	127.0
Share premium account		11.6	11.6
Own shares	8	(10.5)	(7.6)
Translation reserve		(121.1)	(123.1)
Capital reduction reserve		85.2	85.2
Other reserves		250.9	250.5
Retained loss		(274.6)	(14.3)
EQUITY SHAREHOLDERS' FUNDS		<u>68.5</u>	<u>329.3</u>
Non-controlling interests		22.5	24.7
Total equity		<u>91.0</u>	<u>354.0</u>

Coats Group plc

Consolidated statement of changes in equity

For the year ended 31 December 2016

	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
Audited									
Balance as at 1 January 2015	127.0	11.6	-	(64.6)	85.2	249.2	(32.1)	376.3	24.3
Net comprehensive income and expense for the year	-	-	-	(58.5)	-	1.3	13.2	(44.0)	10.5
Dividends	-	-	-	-	-	-	-	-	(10.1)
Purchase of own shares	-	-	(7.6)	-	-	-	-	(7.6)	-
Share based payments	-	-	-	-	-	-	4.6	4.6	-
Balance as at 31 December 2015	127.0	11.6	(7.6)	(123.1)	85.2	250.5	(14.3)	329.3	24.7
Unaudited									
Net comprehensive income and expense for the year	-	-	-	2.0	-	0.4	(265.4)	(263.0)	11.2
Dividends	-	-	-	-	-	-	-	-	(13.4)
Purchase of own shares	-	-	(2.9)	-	-	-	-	(2.9)	-
Share based payments	-	-	-	-	-	-	5.1	5.1	-
Balance as at 31 December 2016	127.0	11.6	(10.5)	(121.1)	85.2	250.9	(274.6)	68.5	22.5

Coats Group plc

Consolidated cash flow statement

For the year ended 31 December

		2016	2015
		Unaudited	Audited
	Note	US\$m	US\$m
Cash inflow from operating activities			
Net cash inflow from operations	11 (a)	79.4	108.9
Interest paid		(14.0)	(15.3)
Taxation paid		(57.9)	(49.3)
Net cash generated by operating activities		<u>7.5</u>	<u>44.3</u>
Cash outflow from investing activities			
Investment income	11 (b)	4.0	10.0
Net capital expenditure and financial investment	11 (c)	(38.7)	(31.9)
Acquisitions and disposals	11 (d)	(40.4)	(26.1)
Net cash absorbed in investing activities		<u>(75.1)</u>	<u>(48.0)</u>
Cash outflow from financing activities			
Purchase of own shares		(2.9)	(7.6)
Receipts from exercise of share options		0.2	-
Dividends paid to non-controlling interests		(13.4)	(10.1)
Net increase in debt and finance leasing		3.3	1.3
Net cash absorbed in financing activities		<u>(12.8)</u>	<u>(16.4)</u>
Net decrease in cash and cash equivalents		(80.4)	(20.1)
Net cash and cash equivalents at beginning of the year		631.4	710.4
Foreign exchange losses on cash and cash equivalents		(80.7)	(58.9)
Net cash and cash equivalents at end of the year	11 (e)	<u>470.3</u>	<u>631.4</u>
Reconciliation of net cash flow to movement in net cash			
Net decrease in cash and cash equivalents		(80.4)	(20.1)
Net increase in debt and lease financing		(3.3)	(1.3)
Change in net cash resulting from cash flows (Free cash flow)		(83.7)	(21.4)
Other non-cash movements		(1.6)	(3.1)
Foreign exchange losses		(77.1)	(55.8)
Decrease in net cash		(162.4)	(80.3)
Net cash at start of year		240.6	320.9
Net cash at end of year	11 (e)	<u>78.2</u>	<u>240.6</u>

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016

1. Basis of preparation

The preliminary financial information (the 'financial information') set out in this report is based on Coats Group plc's unaudited consolidated financial statements, which are prepared in accordance with International Financial Reporting Standard ('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 have been applied consistently to all periods presented.

The financial information set out in this report does not constitute the Coats Group plc's statutory accounts for the years ended 31 December 2016 and 2015. The financial information for the year ended 31 December 2015 is derived from the statutory accounts for that year which have been filed with the Registrar of Companies. The audit report on those accounts did not contain statements under Sections 498(2) or 498(3) of the Companies Act 2006. The audit opinion contained in that report was unmodified. The audit of the statutory accounts for the year ended 31 December 2016 is not yet complete. Those accounts will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

Whilst the financial information included in this report has been compiled in accordance with the recognition and measurement principles of applicable IFRS, this report does not itself contain sufficient information to comply with IFRS. Coats Group plc expects to publish full consolidated financial statements that comply with IFRS; these will be available to shareholders in March 2017.

New standards, interpretation and amendments adopted by the Group

The same accounting policies, presentation and methods of computation are followed in the preliminary financial information as applied in the Group's annual audited financial statements for the year ended 31 December 2015.

Discontinued operations

Following on from the disposal of the EMEA Crafts business in 2015, Coats closed its loss-making UK Crafts operations with the business ceasing operations during the second half of 2016. The results of the UK Crafts business have been reported as a discontinued operation. Accordingly, prior year amounts in the consolidated income statement have been reclassified to discontinued operations. Note 13 provides details on the results of the UK Crafts business.

Going concern

At 31 December 2016 the Group had cash and cash equivalent totalling \$476.5 million (2015: \$649.9 million). The Group also has various actual and contingent liabilities. The Board expects to be able to meet these obligations from existing resources. Further information on the net cash position of the Group is provided in note 11(e).

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; the binding settlement agreement with the Trustees of the UK Coats Pension Plan and Brunel Holdings Pension Scheme announced on 17 February 2017, the proposed settlement offer open to the Trustee of the Staveley scheme; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and this financial information is prepared on that basis.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

1. Basis of preparation (continued)

Principal exchange rates

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

		2016	2015
Average	Sterling	0.74	0.65
	Euro	0.90	0.90
	Brazilian Real	3.48	3.34
	Indian Rupee	67.16	64.12
Period end	Sterling	0.81	0.68
	Euro	0.95	0.92
	Brazilian Real	3.25	3.96
	Indian Rupee	67.92	66.15

2. Operating segments

The Group has two reportable segments: Industrial and Crafts. Both segments includes businesses with similar operating and market characteristics. These segments are consistent with the internal reporting as reviewed by the Coats Group plc Board (the 'Chief Operating Decision Maker').

Segment revenue and results

Year ended 31 December 2016:

Unaudited

	Industrial US\$m	Crafts US\$m	Total US\$m
Revenue	1,221.2	236.1	1,457.3
Segment profit	154.7	10.8	165.5
UK pension scheme administrative expenses			(7.6)
Operating profit before exceptional and acquisition related items			157.9
Exceptional and acquisition related items			(4.6)
Operating profit			153.3
Share of profit of joint ventures			0.8
Investment income			4.3
Finance costs			(35.9)
Profit before taxation from continuing operations			122.5

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

2. Operating segments

Year ended 31 December 2015 *:

Audited

	Industrial US\$m	Crafts US\$m	Total US\$m
Revenue	1,212.5	260.0	1,472.5
Segment profit	135.2	14.9	150.1
UK pension scheme administrative expenses			(10.2)
Operating profit before exceptional and acquisition related items			139.9
Exceptional and acquisition related items			(28.4)
Operating profit			111.5
Share of profit of joint ventures			-
Investment income			10.5
Finance costs			(41.7)
Profit before taxation from continuing operations			80.3

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

3. Exceptional and acquisition related items

The Group's consolidated income statement format includes results before and after exceptional and acquisition related items.

Exceptional items

Exceptional items are set out below:

	2016 Unaudited US\$m	2015 Audited US\$m
Exceptional items:		
<i>Cost of sales:</i>		
US environmental costs	-	13.2
Reorganisation costs – Mexico	-	3.3
	-	16.5
<i>Administrative expenses:</i>		
Capital incentive plan charge	-	1.3
UK Pensions Regulator ('tPR') investigation costs	-	5.7
Reorganisation costs – overhead reduction programme	-	14.1
	-	21.1
<i>Other operating income:</i>		
Profit on the sale of property	-	(9.2)
Total exceptional items charged to operating profit	-	28.4
<i>Share of profits of joint ventures:</i>		
Loss on disposal of joint venture	-	1.5
Total exceptional items before taxation	-	29.9

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

3. Exceptional and acquisition related items (continued)

Exceptional items (continued)

There were no exceptional items from continuing operations during the year ended 31 December 2016. Exceptional items in 2015 were as follows:

- costs related to the consolidation of Coats' Mexican operations from three site to two were \$3.3 million. The gain on disposal of the property in Mexico was \$9.2 million thereby generating an overall positive contribution of \$5.9 million;
- with the sale of EMEA Crafts in 2015, Coats undertook a review of elements of its cost base, including costs previously allocated to that business, to establish the appropriate cost structure for a smaller and less complex Group. Costs incurred on this overhead reduction programme in the year ended 31 December 2015 were \$14.1 million;
- US environmental costs were \$13.2 million which included a provision for the remedial work on the Lower Passaic River, New Jersey, USA (see note 10 for further details);
- the Group provided for an additional \$5.7 million in relation to costs in connection with the UK Pensions Regulator ('tPR') investigations;
- a loss on disposal of \$1.5 million was recognised on the sale of Coats' share in a Philippines joint venture; and
- other exceptional costs of \$1.3 million related to the capital incentive plan.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, quantitative as well as qualitative factors such as frequency or predictability of occurrence are considered.

Acquisition related items

Acquisition related items are set out below:

	2016 Unaudited US\$m	2015 Audited US\$m
Acquisition related items:		
<i>Administrative expenses:</i>		
Acquisition transaction costs	0.9	-
Contingent consideration linked to employment	2.4	-
Amortisation of acquired intangibles	1.3	-
Total acquisition related items before taxation	4.6	-

During the year ended 31 December 2016, the Group completed the acquisitions of Gotex S.A. and Fast React Systems Limited (see note 12 for further details).

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

4. Investment income

	2016 Unaudited US\$m	2015 Audited US\$m
Interest receivable on Parent Group cash *	2.2	4.9
Other interest receivable and similar income	1.6	4.9
Income from other investments	0.5	0.7
	4.3	10.5

* Cash relating to the realisation of investments previously held by Coats Group plc.

5. Finance costs

	2016 Unaudited US\$m	2015 Audited US\$m
Interest on bank and other borrowings	14.4	16.8
Net interest on pension scheme assets and liabilities	13.6	17.1
Foreign exchange losses on Parent Group cash *	-	3.2
Other finance costs including unrealised gains and losses on foreign exchange contracts	7.9	4.6
	35.9	41.7

* Cash relating to the realisation of investments previously held by Coats Group plc.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

6. Taxation

	2016 Unaudited US\$m	2015 Audited US\$m
UK taxation based on profit for the year:		
Corporation tax at 20% (2015: 20.25%)	5.3	5.5
Double taxation relief	(5.3)	(5.5)
Total UK taxation	-	-
Overseas taxation:		
Current taxation	59.5	57.6
Deferred taxation	(9.8)	(10.9)
	49.7	46.7
Prior year adjustments:		
Current taxation	0.1	(5.0)
Deferred taxation	(3.0)	2.0
	(2.9)	(3.0)
	46.8	43.7

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 ended 31 December 2016 of 1,386,628,130 (2015: 1,400,765,325), excluding shares held by the Employee Benefit Trust but including shares under the Deferred Annual Bonus Plan which are not contingently issuable.

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

Diluted earnings per Ordinary Share are calculated using the weighted average number of Ordinary Shares during the year ended 31 December 2016 of 1,407,148,372 which includes dilutive potential 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.

For the year ended 31 December 2015 there was no difference between basic and diluted earnings per share.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

8. Issued share capital

There were no changes in issued share capital during the year ended 31 December 2016.

	Number of Shares	US\$m
At 1 January 2016 and at 31 December 2016	<u>1,407,612,282</u>	<u>127.0</u>

The own shares reserve of \$10.5 million at 31 December 2016 (2015: \$7.6 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 31 December 2016 was 25,746,861 (2015: 17,625,636).

9. Dividends

No dividends were paid during the year (2015: \$nil).

The proposed final dividend of 0.84 cents per ordinary share for the year ended 31 December 2016 is not recognised as a liability in the consolidated financial information and, subject to shareholder approval, will be paid on 30 May 2017 to shareholders on the register at the close of business on 5 May 2017.

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. Approximately 52 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 April 2014, the EPA released a Focused Feasibility Study and Proposed Plan (FFS) for the lower 8 miles of the LPR. The FFS analyses a series of remedial alternatives.

In March 2015, CC and other companies submitted a petition to EPA, asserting that they are de minimis parties and seeking a meeting to commence settlement discussions.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR pursuant to the FFS 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 the CPG's proposed remedial alternative 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.

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 eight miles of the FFS. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC, filed for bankruptcy protection in June 2016, but OCC is expected to pay its share of the remedial costs even if Maxus obtains some degree of protection in the bankruptcy proceeding, and objections have been filed opposing such protection. 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.

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Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

10. US environmental matters (continued)

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 estimate of its de minimis share of 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. As at 31 December 2016, \$3.4 million of this provision had been utilised. The process concerning the LPR continues to evolve and these estimates are subject to change based upon the scope of the remedy selected by EPA, 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. The total charge to the income statement, net of insurance reimbursements, for the year ended 31 December 2016 was \$nil (31 December 2015: \$12.8 million).

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, CC could record additional provisions and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

11. Notes to the consolidated cash flow statement

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

	2016 Unaudited US\$m	2015 * Audited US\$m
Operating profit	153.3	111.5
Depreciation	31.9	34.5
Amortisation of intangible assets	8.8	9.0
Reorganisation costs (see note 3)	-	17.4
Exceptional profit on sale of property (see note 3)	-	(9.2)
Other operating exceptional and acquisition related items (see note 3)	4.6	20.2
Pre-exceptional operating profit before depreciation and amortisation (EBITDA)	198.6	183.4
(Increase)/decrease in inventories	(3.7)	4.3
Decrease/(increase) in debtors	5.9	(11.9)
Decrease in creditors	(5.7)	(11.0)
Provision movements	(113.3)	(47.5)
Foreign exchange and other non-cash movements	2.5	3.2
Discontinued operations	(4.9)	(11.6)
Net cash inflow from operations	79.4	108.9

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

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Notes to the consolidated financial information for the year ended 31 December 2016 (continued)

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

b) Investment income

	2016 Unaudited US\$m	2015 Audited US\$m
Interest and other income	3.0	8.2
Dividends received from joint ventures	1.0	1.8
	4.0	10.0

c) Capital expenditure and financial investment

	2016 Unaudited US\$m	2015 * Audited US\$m
Acquisition of property, plant and equipment and intangible assets	(40.1)	(44.1)
Disposal of available-for-sale investments	0.3	0.1
Disposal of property, plant and equipment	1.1	12.9
Discontinued operations	-	(0.8)
	(38.7)	(31.9)

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

d) Acquisitions and disposals

	2016 Unaudited US\$m	2015 * Audited US\$m
Acquisition of business	(36.3)	(5.5)
Investment in joint venture	(0.4)	-
Net receipt from sale of joint venture	-	1.1
Discontinued operations	(3.7)	(21.7)
	(40.4)	(26.1)

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

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Notes to the financial information for the year ended 31 December 2016 (continued)

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

e) Summary of net cash

	2016 Unaudited US\$m	2015 Audited US\$m
Parent Group cash and cash equivalents *	343.1	504.6
Other group cash and cash equivalents	133.4	145.3
Total cash and cash equivalents	476.5	649.9
Bank overdrafts	(6.2)	(18.5)
Net cash and cash equivalents	470.3	631.4
Other borrowings	(392.1)	(390.8)
Total net cash	78.2	240.6

* Cash relating to the realisation of investments previously held by Coats Group plc.

12. Acquisitions

In June 2016, the Group acquired 100% of the voting equity of Gotex S.A. ('Gotex'), a company based in Spain that designs, manufactures and trades a range of innovative, high performance industrial textiles to serve industries such as telecommunications (fibre optic cables), energy and oil and gas. Gotex is a market leader in coated fibreglass yarns with a proprietary technology that enables manufacturing at significantly higher speeds than conventional technology. This will complement Coats' aramid product range and strengthen Coats' presence in fibre optics. Coats will support Gotex in further expanding into high-growth markets by leveraging Coats' geographic footprint, breadth of global customer relationships and strong corporate brand.

The Group also acquired 100% of the voting equity of Fast React Systems Limited ('Fast React'), a UK based provider of software solutions and expertise to manufacturers and retailers in the apparel and footwear industries to improve their operational efficiency. The acquisition, which was completed in May 2016, enables the Group to offer an even wider range of productivity improvement tools to customers and follows the acquisition of GSD in May 2015.

The consideration transferred net of cash and cash equivalents acquired for Gotex and Fast React was \$28.4 million and \$7.1 million respectively.

In addition to the consideration paid there is a contingent consideration payable up to €2.0 million (\$2.2 million) for Gotex. The consideration payable is determined by the revenue and gross margin achieved in the year ended 31 December 2017. The provision as at the date of acquisition of \$1.1 million represented the fair value of the estimated amount payable based on expectations of performance.

Contingent deferred consideration amounts are also payable that have been treated as remuneration. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Amounts are therefore charged to the income statement over the period of service they relate to. For Gotex up to €2 million is payable covering the service period of two years from acquisition. For Fast React up to £3 million is payable dependent on the performance over a three year period to 31 March 2019 as well as continued service of certain employees. The charge to the income statement for the year ended 31 December 2016 was \$2.4 million (see note 3).

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Notes to the financial information for the year ended 31 December 2016 (continued)

12. Acquisitions (continued)

The provisional fair values of the identifiable assets and liabilities of Gotex and Fast React as at the date of acquisition were as follows:

	Provisional fair value recognised on acquisition of Gotex US\$m	Provisional fair value recognised on acquisition of Fast React US\$m	Provisional Total US\$m
Assets			
Intangible assets	15.5	4.5	20.0
Property, plant and equipment	0.9	0.1	1.0
Inventories	3.0	-	3.0
Trade and other receivables	4.4	4.0	8.4
Cash and cash equivalents	2.4	4.0	6.4
	26.2	12.6	38.8
Liabilities			
Trade and other payables	(3.3)	(5.5)	(8.8)
Deferred tax liabilities	(4.0)	(0.8)	(4.8)
Total identifiable net assets acquired at fair value	18.9	6.3	25.2
Goodwill recognised on acquisition (provisional)	13.0	4.8	17.8
	31.9	11.1	43.0
Purchase consideration paid	30.8	11.1	41.9
Contingent purchase consideration estimated to be paid	1.1	-	1.1
Total consideration	31.9	11.1	43.0

In the provisional accounting, adjustments are made to the book values of the net assets of the companies acquired to reflect their provisional fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. 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 accordance with paragraph 23 of IFRS 3 (revised).

The fair value of identified net assets of Fast React include customer related intangibles of \$2.3 million, brands and trade names of \$0.9 million and technology related intangibles of \$1.3 million. Goodwill arising from the acquisition has been provisionally valued at \$4.8 million.

The fair value of identified net assets of Gotex include customer related intangibles of \$3.8 million, brands and trade names of \$0.5 million and technology related intangibles of \$11.2 million. Goodwill arising from the acquisition has been provisionally valued at \$13.0 million.

The goodwill arising from the acquisitions 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 acquisitions is expected to be deductible for tax purposes.

From the date of acquisition, Gotex contributed \$11.7 million to revenues and \$2.0 million to the profit before tax from continuing operations of the Group. Fast React contributed \$3.8 million to revenues and \$0.5 million to the profit before tax from continuing operations of the Group.

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Notes to the financial information for the year ended 31 December 2016 (continued)

12. Acquisitions (continued)

If the acquisitions had taken place at the beginning of the year, it is estimated that revenue from continuing operations for the year ended 31 December 2016 would have been \$19.1 million for Gotex and \$6.3 million for Fast React and the profit after tax from continuing operations for the year ended 31 December 2016 would have been \$2.8 million for Gotex and \$0.8 million for Fast React, based on unaudited management accounts.

Transaction costs relating to the acquisitions of Gotex and Fast React totalling \$0.9 million have been expensed and are included in administrative expenses in the consolidated income statement (see note 3). Transaction costs paid in the year ended 31 December 2016 were \$0.8 million and are included in cash flows absorbed in investing activities in the consolidated cash flow statement.

13. Discontinued operations

Following on from the disposal of the EMEA Crafts business in 2015, Coats closed its loss-making UK Crafts operations with the business ceasing operations during the second half of 2016. The results of the UK Crafts business have been reported as a discontinued operation and prior year amounts in the consolidated income statement have been reclassified to discontinued operations.

The results of discontinued operations are presented below. All amounts for the year ended 31 December 2016 relate to the UK Crafts business and amounts for the year ended 31 December 2015 relate to the EMEA Crafts and UK Crafts businesses unless stated.

	2016 Unaudited US\$m	2015 Audited US\$m
Revenue	8.8	64.9
Cost of sales	(6.7)	(32.6)
Gross profit	2.1	32.3
Distribution costs	(3.8)	(31.6)
Administrative expenses	(2.8)	(13.7)
Operating loss	(4.5)	(13.0)
Investment income	-	0.1
Finance costs	-	(0.3)
Loss before taxation	(4.5)	(13.2)
Tax on loss	-	-
Loss for the year	(4.5)	(13.2)
Loss on disposal	-	(55.8)
Exchange loss transferred to profit or loss on disposal	-	(7.5)
Exchange gain transferred to profit or loss on sale of legacy investment	-	0.5
Total loss from discontinued operations	(4.5)	(76.0)

The UK Crafts results for the year ended 31 December 2016 include exceptional closure related costs of \$1.2 million included in administrative expenses. Included in discontinued results above for the year ended 31 December 2015 are revenue and operating loss of \$17.1 million and \$0.5 million respectively for the UK Crafts business.

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Notes to the financial information for the year ended 31 December 2016 (continued)

13. Discontinued operations (continued)

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

	2016 Unaudited Cents	2015 Audited Cents
Loss per ordinary share from discontinued operations:		
Basic and diluted	(0.32)	(5.42)

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

	2016 Unaudited US\$m	2015 Audited US\$m
Net cash outflow from operating activities	(4.9)	(11.6)
Net cash outflow from investing activities	(3.7)	(22.5)
Net cash flows from discontinued operations	(8.6)	(34.1)

14. Alternative performance measures

Alternative performance measures included in this preliminary announcement 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. Non-GAAP amounts, however, are not a measure of financial performance under IFRS and should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is included below. The non-GAAP measures set out below are key performance indicators (KPIs) and have been chosen by the Board to measure the Group's progress, development and ongoing performance.

a) Organic growth

Organic growth measures the change in revenue and operating profit¹ after adjusting for acquisitions. The effect of acquisitions is equalised by:

- removing from the year of acquisition, their revenue and operating profit¹; and
- in the following year, removing the revenue and operating profit¹ 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 profit¹ at current year exchange rates.

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Notes to the financial information for the year ended 31 December 2016 (continued)

14. Alternative performance measures (continued)

a) Organic growth (continued)

	2016 Unaudited US\$m	2015 * Audited US\$m	% Growth
Revenue from continuing operations	1,457.3	1,472.5	(1%)
Constant currency adjustment	-	(40.3)	
Revenue at constant currency	1,457.3	1,432.2	2%
Revenue from acquisitions	(16.4)	-	
Organic revenue at constant currency	1,440.9	1,432.2	1%

	2016 Unaudited US\$m	2015 * Audited US\$m	% Growth
Operating profit	153.3	111.5	38%
Exceptional and acquisition related items (note 3)	4.6	28.4	
Adjusted operating profit from continuing operations ¹	157.9	139.9	13%
Constant currency adjustment	-	(3.8)	
Operating profit at constant currency¹	157.9	136.1	16%
Operating profit from acquisitions ¹	(2.8)	-	
Organic operating profit at constant currency¹	155.1	136.1	14%

¹ Before exceptional and acquisition related items

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

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Notes to the financial information for the year ended 31 December 2016 (continued)

14. Alternative performance measures (continued)

b) 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 and foreign exchange gains and losses arising on cash relating to the realisation of investments previously held by Coats Group plc as set out below.

	2016 Unaudited US\$m	2015 * Audited US\$m
Profit from continuing operations	75.7	36.6
Non-controlling interests	(11.9)	(11.2)
Profit from continuing operations attributable to equity shareholders	63.8	25.4
Exceptional and acquisition relates items (note 3)	4.6	29.9
Foreign exchange losses on Parent Group cash **	-	3.2
Tax credit in respect of exceptional and acquisition related items	(0.4)	(2.5)
Adjusted profit from continuing operations	68.0	56.0
Weighted average number of Ordinary Shares	1,386,628,130	1,400,765,235
Adjusted earnings per share (cents)	4.91	4.00
Adjusted earnings per share (growth %)	23%	

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

** Cash relating to the realisation of investments previously held by Coats Group plc.

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2016 is 1,386,628,130 (2015: 1,400,765,325), the same as that used for basic earnings per Ordinary Share from continuing operations (see note 7).

Coats Group plc

Notes to the financial information for the year ended 31 December 2016 (continued)

14. Alternative performance measures (continued)

c) Adjusted free cash flow

Net cash generated by operating activities, a GAAP measure, reconciles to changes in net cash 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:

	2016 Unaudited US\$m	2015 * Audited US\$m
Change in net cash resulting from cash flows (free cash flow)	(83.7)	(21.4)
Acquisition of business (note 12)	36.3	5.5
Net cash flows from discontinued operations (note 13)	8.6	34.1
Net cash outflow in respect of reorganisation costs	8.0	10.4
Net cash inflow from property disposals	-	(9.9)
UK Pensions Regulator ('tPR') investigation costs	3.7	8.9
Payments to UK pension schemes	99.1	33.8
Net cash flows in respect of other exceptional items	4.2	1.3
Purchase of own shares by Employee Benefit Trust	2.9	7.6
Receipts from exercise of share options	(0.2)	-
Tax (inflow)/outflow in respect of adjusted cash flow items	(0.8)	0.7
Adjusted free cash flow	78.1	71.0

* Restated to reflect the results of the UK Crafts business as a discontinued operation (see note 1).

d) 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:

	2016 Unaudited US\$m	2015 Audited US\$m
Operating profit before exceptional and acquisition related items	157.9	139.9
Non-current assets		
Property, plant and equipment	265.9	273.0
Trade and other receivables	16.1	16.4
Current assets		
Inventories	205.8	204.0
Trade and other receivables	248.4	261.9
Current liabilities		
Trade and other payables	(310.8)	(320.7)
Non-current liabilities		
Trade and other payables	(15.8)	(12.4)
Capital employed	409.6	422.2
ROCE	39%	33%

Coats Group plc

Notes to the financial information for the year ended 31 December 2016 (continued)

15. Post balance sheet event

On 22 January 2017, the main distribution centre for the US Crafts business in Albany, Georgia suffered significant damage following a tornado strike, including one building which housed sourced products for yarns, threads and crafting implements. The decision had been taken to close the centre at the time and there were no injuries to Coats' personnel. Although buildings in the centre are leased, our initial estimate is that the tornado has damaged a significant proportion of the stock as well as causing disruption to our logistics activities. Given the extent of the damage temporary alternative premises have been found but operations are not expected to be fully back to normal until later in Q2.

The Group's insurance policies are expected to be sufficient to cover both the loss of inventory and physical assets. Although sales will be adversely impacted in the first half, lost profits as well as the incremental costs of re-establishing operations are included in the Group's business interruption insurance cover.

16. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2016 and up to the date of this report:

M Clasper CBE
M N Allen
R Anderson
S Boddie (Appointed 4 July 2016)
N Bull
P Forman (Resigned 31 December 2016)
D Gosnell
R Howes (Resigned 6 April 2016)
F Philip (Appointed 1 October 2016)
A Rosling CBE
R Sharma

On behalf of the Board
M. Clasper
Chairman
24 February 2017

United Kingdom

1 The Square, Stockley Park, Uxbridge, UB11 1TD

Tel: 020 210 5000

Registered in England No. 103548