28 July 2016

Coats Group plc

2016 Half Year results

Coats Group plc ('Coats' or the 'Company'), the world's leading industrial thread manufacturer, today announces its unaudited results for the six months ended 30 June 2016.

Highlights[1]

- Revenue of $718 million maintained; lower sales growth in Q2 due to tougher market conditions
- Operating profit up 24% to $77 million on an adjusted basis (up 44% reported)
- Industrial profit growth of 27% delivered by market share gains and cost productivity
- Americas Crafts margin increased, despite tough market conditions, due to focus on costs
- Adjusted EPS up 24% to 2.08c with higher operating profit and reduction in tax rate offset mainly by unrealised losses on foreign exchange hedges; reported EPS of 1.90c (2015 continuing: 0.25c)
- Adjusted free cash flow for last twelve months of $82 million (June 2015: $75 million) primarily due to higher profitability
- Acquired Gotex and Fast React; last year's acquisition GSD performing well
- Continuing settlement discussions with Trustees of the three UK pension schemes and engaging with UK Pensions Regulator to seek to achieve a resolution of investigations

**** Denotes a KPI***		H1 2016	H1 2015	Change	CER change [2]
Revenue	reported	$720m	$748m	(4)%	1%
	organic [3]	$718m	$748m	(4)%	*** 0%**
Operating profit	reported	$75m	$52m	44%	50%
	adjusted [4]	$77m	$65m	19%	*** 24%**
Earnings per share	reported	1.90c	(3.42)c	n/a	n/a
	adjusted [5]	2.08c	1.82c	14%	*** 24%**
Free cash flow (last twelve months)	adjusted [6]	*** $82m**	$75m	10%	
Return on capital employed (ROCE) [7]		*** 31%**	24%	700bps	

Commenting on Coats first half 2016 results Paul Forman, Group Chief Executive, said:

'Coats continued to perform well in the first half of 2016 with operating profit growth of 24%. In challenging market conditions, which led to lower sales growth in Q2, we continued to take market share, introduce new and innovative products and drive customer adoption of our eCommerce platform. We delivered productivity gains, tightly managed our overheads and greater sales volumes led to a positive operational gearing effect. We completed the acquisitions of Gotex and Fast React, both of which have leading positions in their markets and we are confident they will deliver strong growth under Coats' ownership. We will build on progress made during the first half and focus on maintaining our strong cash flows. However, the tougher market conditions that impacted Q2 sales performance are likely to persist, particularly given macroeconomic uncertainty. On balance we therefore maintain our previous 2016 guidance.'

Conference call

Coats Management will discuss this report in a webcast / conference call with analysts and investors at 0900 BST today (28 July 2016). The webcast can be accessed via www.coats.com/investors/hy16. 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 coats.com.

1 *All revenue and profit figures in highlights on an organic, constant exchange rate (see footnote 2) basis, unless otherwise stated*
2 *On a constant exchange rate (CER) basis restates H1 2015 figures at H1 2016 exchange rates.*
3 *Excludes contribution from acquisitions made during the period (see note 14).*
4 *Excludes contribution from acquisitions made during the period, and before exceptional and acquisition related items.*
5 *Excludes exceptional costs, acquisition related items and foreign exchange gains/losses on parent group cash balance (see note 14).*
6 *Adjusted for exceptional and discontinued items, acquisition costs, purchase of own shares for Employee Benefits Trust and UK pension recovery payments (see note 14).*
7 *Pre-exceptional operating profit for the last twelve months divided by capital employed on 30 June 2016 (see note 14).*

Enquiry details

Investors	Jaideep Thatai	Coats Group plc	+44 (0)20 8210 5086
Media	Richard Mountain / Nick Hasell	FTI Consulting	+44 (0)20 3727 1374

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 more than 60 countries, Coats employs 19,000 people across six continents. Revenues in 2015 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 Speciality threads and yarns in areas such as automotive 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 comparisons with H1 2015 are on a CER basis, all references to revenue are on an organic basis and all references to operating profit are on an adjusted basis, unless otherwise stated.

	H1 2016 $m	H1 2015 $m	H1 2015 CER[1] $m	Change %	CER change %
Organic revenue [2]					
Industrial	607.0	615.0	589.3	(1)%	3%
Crafts	110.9	133.1	126.9	(17)%	(13)%
Total	**717.9**	**748.1**	**716.2**	**(4)%**	**0%**
Operating profit [3]					
Industrial	80.6	66.3	63.7	22%	27%
Crafts	0.8	2.8	2.4	(71)%	(67)%
UK pension admin	(4.1)	(4.3)	(4.0)		
Group	**77.3**	**64.8**	**62.1**	**19%**	**24%**
Operating margin [3]					
Industrial	**13.3%**	10.8%	10.8%	250bps	250bps
Crafts	**0.7%**	2.1%	1.9%	(140)bps	(120)bps
Group	**10.8%**	8.7%	8.7%	**210bps**	**210bps**

1 *H1 2015 CER restates H1 2015 figures at H1 2016 exchange rates.*
2 *Excludes contribution from acquisitions made during the period.*
3 *On an adjusted basis which excludes contribution from acquisitions made during the period, exceptional and acquisition related items.*

Coats generated revenues of $718 million in the first half of 2016, similar to H1 2015 ($716 million). Industrial sales grew 3% driven by share gains in Apparel and Footwear and product innovation and geographic expansion in Speciality, although growth was moderated by lower sales in Q2 due to softer demand from clothing retailers and manufacturers in US consumer durable markets. Crafts sales fell 13% due to a sharp contraction in the US handknitting market predominantly caused by a mild North American winter.

Adjusted operating profit increased 24% to $77.3 million (H1 2015: $62.1 million). Industrial profit grew 27% and margins were up 250 basis points (bps) to 13.3% due to volume growth, lower input prices and productivity and procurement improvements and tight cost control. The 67% decline in Crafts profit was primarily due to lower US handknittings sales and losses made in the UK business, which will close by the end of the year. Craft Americas margins increased 40bps to 3.0%, despite lower volumes, due to tight cost control. The overhead reduction programme, initiated in 2015, 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 H1 2015. 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 Dollar against the Brazilian Real, Indian Rupee and Mexican Peso, with a relatively smaller impact on operating profit compared to revenues.

Financial summary

Adjusted earnings per share ('EPS') on a CER basis increased 24% to 2.08 cents (H1 2015: 1.68 cents) with higher operating profits and a reduction in the tax rate offset mainly by unrealised losses on forward foreign exchange contracts due to the depreciation of Sterling following the EU Referendum. The Company generated a reported attributable profit of $26.3 million compared to $3.6 million in H1 2015 (from continuing operations), in which there was a higher level of exceptional costs and foreign exchange losses on parent group cash.

There was an adjusted free cash outflow of $14.6 million in the first half of 2016 which reflects the normal intra-year working capital cycle of the business (H1 2015: $22.9 million outflow). The reduction in net cash from $241 million at the end of 2015 to $59 million at 30 June 2016 was also due to pensions deficit repair payments to the Staveley and Brunel schemes, the lower US dollar value of Sterling denominated parent group cash (committed to supporting Sterling pension liabilities) and $35 million spent on acquisitions. On a last twelve months' basis, Coats generated an adjusted free cash inflow of $82.2 million to June 2016, an increase on the twelve months to June 2015 ($75.0 million) due primarily to higher profitability. Return on capital employed increased to 31%, from 24% at 30 June 2015, also due to higher profits.

UK Pensions Regulator investigations

Coats continues its settlement discussions, which commenced earlier this year, with the Trustees of the Company's three UK pension schemes and has now also met with the UK Pensions Regulator ('tPR') to seek to achieve a resolution of the ongoing investigations.

As previously announced, Coats has committed to retain the parent group cash within the Group to support the Company and schemes. This would be on the basis of tPR withdrawing the Warning Notices on the three schemes, thereby ending the investigations. There are active discussions as to the support structure provided by the parent group cash and the level of annual deficit recovery payments. If a settlement cannot be reached and the investigation process continues, Coats believes any hearing is unlikely before the fourth quarter of 2016 at the earliest. See page 9 for further details.

Strategic progress

In June, 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 delivered double digit sales growth by leveraging Coats global reach and strong customer relationships. See page 6 for more details.

Following on from the disposal of the EMEA Crafts business last year, Coats is to close its loss-making UK Crafts operations which is anticipated by the end of 2016. See page 7 for more details.

EU referendum

Earlier this year, Coats undertook a risk analysis of the UK voting to leave the European Union. As a global industrial manufacturing company with no manufacturing facilities and minimal sales in the UK, Coats was of the view that there would be a limited direct adverse impact on the Group. Following the outcome of the vote, although too early to provide a definitive assessment given the lack of certainty on the future relationship between the UK and EU, the Company maintains this view. Indirect factors have impacted the Company in these results, namely the effect of lower discount rates on the accounting valuation of pension liabilities and the depreciation of Sterling on unrealised losses on foreign exchange hedging. In the near and longer term there may be other impacts, notably macroeconomic uncertainty, and, as such, Coats will continue to monitor the situation through its risk management framework. See page 9 for more details.

Corporate changes

On 24 June, 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 has recently joined the Company as Chief Financial Officer and Executive Director and in October Fran Philips will join as a Non-Executive Director.

Outlook

Coats will look to build on the performance of the first half of 2016 in which it continued to gain market share and deliver productivity and procurement improvements. However, the challenging market conditions that impacted Q2 sales performance are likely to persist into the second half, particularly given macroeconomic uncertainty. Therefore, on balance, expectations for the year remain unchanged: to deliver modest year-on-year growth in Group adjusted operating profit for continuing operations, with improvements to non-operating items further benefiting adjusted EPS.

Operating Review

In the following commentary all comparisons with H1 2015 are on a CER basis, all references to revenue are on an organic basis and all references to operating profit are on an adjusted basis, unless otherwise stated.

Industrial

On organic basis	**H1 2016** **$m**	**H1 2015** **$m**	**H1 2015 CER**[1] **$m**	**Change** **%**	**CER change** **%**
Revenue [2]					
By business					
Apparel and Footwear **[3]**	492.5	498.7	477.5	(1)%	3%
Speciality	114.6	116.3	111.8	(1)%	3%
Total	**607.0**	**615.0**	**589.3**	**(1)%**	**3%**
By region					
Asia	357.5	356.9	347.2	0%	3%
Americas	123.6	136.7	125.4	(10)%	(1)%
EMEA	125.9	121.4	116.7	4%	8%
Total	**607.0**	**615.0**	**589.3**	**(1)%**	**3%**
Segment profit [4]	**80.6**	**66.3**	**63.7**	**22%**	**27%**
Segment margin [4]	**13.3%**	**10.8%**	**10.8%**	**250bps**	**250bps**

1 H1 2015 CER restates H1 2015 figures at H1 2016 exchange rates.
2 Excludes contribution from acquisitions made during the period.
3 Includes accessories, zips and trims and global services.
4 On an adjusted basis which excludes contribution from acquisitions made during the period, exceptional and acquisition related items.

Revenue in Apparel and Footwear (A&F) grew 3%. In a challenging pricing environment this was driven by volume growth, of which the majority was through market share gains as underlying market growth was adversely impacted by softer retailer demand in the second quarter especially. 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. Eighteen months after the Company rolled out an eCommerce platform it is now live in over 25 countries, used by over 10,000 customers (manufacturers) and accounts for over 60% of total thread orders. It has also enabled a reduction in back office headcount.

Speciality revenue grew 3% despite tough comparators (13% growth in H1 2015) and challenging market conditions in US consumer durable 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 entered new end-markets such as carbon composites.

By region, revenue in Asia increased 3% with a strong start to the year in A&F somewhat offset by softer demand from retailers in Q2. 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 slowdown in some US consumer durable markets. Sales in EMEA rose 8%, following a challenging 2015, with growth in key A&F markets, improved performance in zips and good performance in Speciality.

Industrial operating profit increased 27% to $80.6 million (H1 2015: $63.7 million) and margins increased 250bps to 13.3%. This reflected good volume growth, leading to a positive operational gearing impact, a reduction in material costs due to the lower average oil price compared to H1 2015 and ongoing productivity and non-raw material procurement improvements. These factors more than offset the challenging pricing environment and the structural wage and energy inflation that the Company faces across the many countries in which it operates.

Acquisitions

In June, Coats completed the acquisition of Gotex, a company 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. Based near Barcelona, Spain, Gotex is a market leader in coated fibreglass yarns with proprietary technology that enables manufacture 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 May, 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. 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. GSD has performed well under Coats ownership and delivered double digit sales growth in H1 2016 by leveraging Coats global reach and strong customer relationships.

Crafts

	H1 2016 $m	**H1 2015 $m**	**H1 2015 CER[1] $m**	**Change %**	**CER change %**
Organic revenue [2]					
Handknittings	52.8	68.9	67.2	(23)%	(21)%
Needlecrafts [3]	58.1	64.2	59.7	(10)%	(3)%
Total	**110.9**	**133.1**	**126.9**	**(17)%**	**(13)%**
Segment profit [4]	**0.8**	**2.8**	**2.4**	**(71)%**	**(67)%**
Segment margin [4]	**0.7%**	**2.1%**	**1.9%**	**(140)bps**	**(120)bps**
Americas (excluding UK)					
Revenue	*104.1*	*125.0*	*119.2*	*(17)%*	*(13)%*
Profit	*3.1*	*3.4*	*3.1*	*(9)%*	*0%*
Margin	*3.0%*	*2.7%*	*2.6%*	*30bps*	*40bps*

1 *H1 2015 CER restates H1 2015 figures at H1 2016 exchange rates.*
2 *Excludes contribution from acquisitions made during the period.*
3 *Includes other textile craft products such as consumer sewings and lifestyle fabrics.*
4 *On an adjusted basis which excludes contribution from acquisitions made during the period, exceptional and acquisition related items.*

Americas Crafts (excluding UK) revenues declined 13% to $104 million in the first half of 2016 (H1 2015: $119 million). Handknitting sales declined 23% 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, while systems issues at a key customer also negatively impacted demand. However, there has been an improvement in handknitting sales levels in the last couple of months. Revenue in Needlecrafts decreased 1% but with continued growth in Coats’ lifestyle fabrics sales during the period. Overall revenues in Latin America were broadly stable, with lower volumes due to challenging market conditions largely offset by product and country mix benefits.

Overall, Crafts profit for the period (including the UK) fell to $0.8 million (H1 2015: $2.4 million). Despite the decline in sales, profit in Americas Crafts for the period was maintained at $3.1 million (H1 2015: $3.1 million) and margins increased 40bps to 3.0%. This was achieved by taking cost actions, such as reducing discretionary spend and tightly controlling overheads, which will remain a focus throughout 2016. Margins are expected to improve in H2 2016 due to the anticipated improvement in market conditions, ongoing focus on costs and traditionally greater weighting of sales in the second half of the year.

UK Crafts
Following on from the disposal of the EMEA Crafts business last year, Coats is to close its loss-making UK Crafts operations. It is anticipated that the business will cease operations by the end of 2016 and be treated as a discontinued item in the full year 2016 results. In H1 2016 the business generated revenues of $7 million and an operating loss of $2 million. The closure will have 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 the first half of 2016, with incremental savings of $3-4 million in addition to the $4 million delivered in 2015. Some savings will continue to be realised in H2 2016 and H1 2017, although as the Company continues to grow some of these savings will be reinvested to support growth plans.

Exceptional and acquisition related items
There were $2.5 million of exceptional and acquisition related costs which related to the upcoming closure of UK Crafts, Gotex and Fast React transaction costs and the amortisation of intangible assets acquired. In H1 2015 exceptional costs totalled $12.5 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 updates to provide on LPR in this report (see note 10).

Non-operating results
Net finance costs in the period were $18.3 million, down from $23.0 million in H1 2015. There was a reduction in interest on borrowings from $9.5 million to $7.3 million in H1 2016 partly due to fixed interest rate swaps coming to an end. There was approximately $4 million of unrealised losses on forward foreign exchange contracts primarily due to the depreciation of Sterling following the EU Referendum. With the movement of all the parent cash group (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 $1.4 million in the first half of 2016 (H1 2015: $3.0 million). This move also negated the foreign exchange exposure, which led to a significant loss in H1 2015 ($12.3 million). IAS19 pensions interest charges reduced from $8.6 million to $7.1 million as a function of the lower pensions accounting deficit at the end of 2015.

The taxation charge for H1 2016 was $22.7 million (H1 2015: $20.2 million) resulting in a reported tax rate of 40% (H1 2015: 66%). 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 200bps to 34% (H1 2015: 36%). This was driven by a reduction in unrelieved losses and withholding tax suffered, together with a favourable change in profit mix for the period.

Profit attributable to minority interests increased to $8.2 million (H1 2015: $6.6 million) and is predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests).

Adjusted EPS increased 24%, on a CER basis, to 2.08 cents (H1 2015: 1.68 cents) and 14% on an actual currency basis. The higher operating profit and improvements in the underlying tax rate were mainly offset by the unrealised loss on forward foreign exchange contracts. Reported EPS of 1.90 cents compares to 0.25 cents in H1 2015 for continuing operations; last year's result was impacted by a higher level of exceptional costs and foreign exchange losses on the parent group cash (there was a reported loss per share of 3.42 cents in H1 2015 due to a loss on discontinued items related to the EMEA Crafts business).

Investment
Capital expenditure during the half, in addition to ongoing maintenance requirements, focused on new product/process development, capacity expansion and environmental spend. The latter, which includes building effluent treatment plants, helps ensure Coats maintains its leading corporate responsibility credentials in the industry. Total capital spend amounted to $17.5 million (H1 2015: $18.1 million) and was 0.9 times depreciation, in line with previous guidance.

Cash flow
In the first half of 2016 there was an adjusted free cash outflow of $14.6 million, an improvement on performance in H1 2015 ($22.9 million outflow), primarily due to higher profitability. The outflow reflects Coats' normal free cash flow cycle, whereby the second half cash inflow significantly exceeds that in the first half. EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) for the half was $98.0 million (H1 2015: $86.7 million). Net working capital as a percentage of sales was maintained at 15%. Interest paid was $7.1 million, a $1.7 million reduction on H1 2015 (from continuing operations), partly as a result of fixed rates swaps coming to an end. Tax paid was $30.7 million, an increase of $5.9 million on H1 2015, due to higher profitability in the first half of 2016 and timing of payments of withholding taxes on remittance of overseas profits. On a non-adjusted basis, there was a free cash outflow of $134.1 million, compared to $64.7 million in H1 2015. The increase was primarily related to $35.4 million spent on acquisitions (H1 2015: $5.5 million on GSD) and $55 million of pension recovery payments made to the Brunel and Staveley schemes.

A key metric for the Company is adjusted free cash flow on a last twelve months' basis. For the twelve months to 30 June 2016, Coats generated $82.2 million. This improvement on the $73.9 million generated for the full year 2015 and $75.0 million for the twelve months to 30 June 2015 was due to higher profitability. This measure is before annual pension recovery payments, acquisitions and dividends, and excludes exceptional items such as tPR investigations.

Balance sheet
The Company had a net cash position of $59 million at 30 June 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 $396 million (£298 million), compared to $505 million (£342 million) at the end of 2015. The reduction was primarily due to $55 million (£38 million) of pensions recovery payments made to the Brunel and Staveley schemes and, in Dollar terms, due to the depreciation of Sterling following the EU Referendum, 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 $337 million at the end of H1 2016, see note 11f, an increase of $73 million from 31 December 2015 ($264 million) primary due to the adjusted free cash outflow in the half and acquisition spend. An important metric for the operating business is the leverage ratio of net debt (excluding parent group cash) to EBITDA. Net debt at 30 June 2015 was 1.7 times EBITDA of the last twelve months (1.9 times at 30 June 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 $515 million as at 30 June 2016, up from $469 million at 31 December 2015. The deficits in the Group's UK defined benefit schemes, namely the Coats Plan, Brunel and Staveley schemes, increased to $465 million (£349 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 70bps decrease in the discount rate to 2.90% (derived using a yield curve approach, based on Sterling AA corporate bonds), while the inflation rate only fell slightly to 2.80% (based on a market implied long term rate). Approximately half of the fall in the discount rate followed the result of the EU Referendum vote on June 23. In US Dollar terms the increase in deficits was partially offset by the depreciation of Sterling following of the EU Referendum. 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.

IAS19 deficit	**30 Jun 2016**	**31 Dec 2015**	**30 Jun 2016**	**31 Dec 2015**
	$m	$m	£m	£m
Coats Plan	365	264	274	179
Brunel	70	72	53	48
Staveley	30	87	22	59
UK defined benefit schemes	**465**	**423**	**349**	**286**
Other Coats net employee benefit obligations	50	46		
Total	**515**	**469**		

Pensions

Investigations

As mentioned earlier in the report, Coats continues settlement discussions with the Trustees of the Brunel, Staveley and Coats UK pension schemes. The Company initiated the process earlier in the year and discussions have been constructive and progress is being made. Agreement to any settlement will also be required from tPR. To that end Coats is not only actively engaging with the Trustees but also now with tPR.

Earlier this year, Coats committed to all parties to retain the entire parent group cash balance within the Group to support the schemes. The cash balance is the proceeds generated from Guinness Peat Group's ('GPG's'), as the Company was known at the time, asset realisation programme between 2011-2013 when it sold its share in approximately 50 businesses leaving Coats as the only remaining operating business. GPG's Directors had envisaged returning the proceeds of the programme to shareholders, and distributions were made in the form of capital returns and share buybacks between 2011 and the first quarter of 2013. However, GPG's Directors decided to stop returns in the second quarter of 2013 when tPR began its investigations, initially into the Coats UK and Brunel schemes in April 2013 and then later that year into the Staveley scheme.

As previously stated, any settlement agreement would be based on a number of principles and conditions. These include tPR withdrawing the Warning Notices on the schemes, thereby ending the investigations, and for Coats to have the ability to commence the payment of normal course dividends to its shareholders and have sufficient cash to invest in growth opportunities. At this stage the level of annual deficit recovery payments to meet any Technical Provisions deficit remaining, after the support provided by the parent group cash, is not certain. If a settlement cannot be reached and the investigation process continues, Coats believes any hearing is unlikely before the fourth quarter of 2016 at the earliest.

Triennial funding valuations

As previously announced, the 2013 triennial funding valuations for the Brunel and Staveley schemes have been agreed. The April 2015 valuation for the Coats scheme is ongoing and is currently anticipated to be agreed alongside any settlement agreement of the pension investigation.

EU referendum

As highlighted on page 4 of this report, although too early to provide a definitive assessment, the Company is of the view that there would be limited direct adverse impacts on the Group. Indirect factors have already impacted Coats and may continue to do so in the near and longer term, notably macroeconomic uncertainty. However, the Company does not believe there have been any changes to its principal risks and uncertainties outlined in the 2015 Annual Report as a result.

As outlined elsewhere in this report, there have been three main immediate impacts of the vote which have negatively affected the H1 2016 results. To manage currency risk the Company's policy is to use forward foreign currency contracts. The sharp decline in Sterling against the US Dollar led to much of the $4 million of unrealised losses on these contracts which impacted reported EPS. Secondly, the parent group cash balance held in Sterling, and intended to support the Group's three UK pension schemes, reduced in US Dollar terms, although there is no real impact as the cash is matched to the Sterling denominated liabilities. The third impact was the material increase in the IAS19 deficits of the Group's three UK defined benefit schemes due to the significant decline in discount rates.

In the medium to longer term as a global market leader, with a strong and defendable core business supplying components to the Apparel and Footwear industry, Coats is relatively well placed to operate in periods of macroeconomic uncertainty. Also as the Company reports in US Dollars and has a Sterling cost base, a persistently lower GBP to USD rate may give rise to a positive translational currency impact.

INDEPENDENT REVIEW REPORT TO COATS GROUP PLC

We have been engaged by Coats Group plc (the 'Company') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of Coats Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 July 2016

Condensed consolidated financial statements

Condensed consolidated income statement
For the half year ended 30 June 2016

	Note	**Half year 2016** Before exceptional and acquisition related items unaudited US$m	Exceptional and acquisition related items (note 3) unaudited US$m	Total unaudited US$m	Half year 2015 Before exceptional and acquisition related items unaudited US$m	Exceptional and acquisition related items (note 3) unaudited US$m	Total unaudited US$m	Full year 2015 Total audited US$m
Continuing operations								
Revenue		**720.0**	**-**	**720.0**	748.1	-	748.1	1,489.5
Cost of sales		**(437.3)**	**-**	**(437.3)**	(468.4)	(9.2)	(477.6)	(946.6)
Gross profit		**282.7**	**-**	**282.7**	279.7	(9.2)	270.5	542.9
Distribution costs		**(101.1)**	**(0.8)**	**(101.9)**	(103.5)	-	(103.5)	(202.9)
Administrative expenses		**(104.0)**	**(1.7)**	**(105.7)**	(111.9)	(3.3)	(115.2)	(238.9)
Other operating income		**-**	**-**	**-**	0.5	-	0.5	9.9
Operating profit		**77.6**	**(2.5)**	**75.1**	64.8	(12.5)	52.3	111.0
Share of profits of joint ventures		**0.4**	**-**	**0.4**	1.1	-	1.1	-
Investment income	**4**	**2.7**	**-**	**2.7**	7.9	-	7.9	10.5
Finance costs	**5**	**(21.0)**	**-**	**(21.0)**	(30.9)	-	(30.9)	(41.7)
Profit before taxation		**59.7**	**(2.5)**	**57.2**	42.9	(12.5)	30.4	79.8
Taxation	**6**	**(22.7)**	**-**	**(22.7)**	(23.1)	2.9	(20.2)	(43.7)
Profit from continuing operations		**37.0**	**(2.5)**	**34.5**	19.8	(9.6)	10.2	36.1
Loss from discontinued operations	**13**	**-**	**-**	**-**	(6.2)	(45.5)	(51.7)	(75.5)
Profit/(loss) for the period		**37.0**	**(2.5)**	**34.5**	13.6	(55.1)	(41.5)	(39.4)
Attributable to:								
EQUITY SHAREHOLDERS OF THE COMPANY		**28.8**	**(2.5)**	**26.3**	7.0	(55.1)	(48.1)	(50.6)
Non-controlling interests		**8.2**	**-**	**8.2**	6.6	-	6.6	11.2
		37.0	**(2.5)**	**34.5**	13.6	(55.1)	(41.5)	(39.4)
Earnings per ordinary share from continuing operations: Basic and diluted (cents)	**7**			**1.90**			0.25	1.78
Earnings/(loss) per ordinary share from continuing and discontinued operations: Basic and diluted (cents)	**7**			**1.90**			(3.42)	(3.61)
Adjusted earnings per share (cents)	**14(b)**			**2.08**			1.82	3.96

Condensed consolidated statement of comprehensive income
For the half year ended 30 June 2016

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Profit/(loss) for the period	**34.5**	(41.5)	(39.4)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains in respect of retirement benefit schemes	**(143.9)**	48.9	67.2
Tax relating to items that will not be reclassified	**-**	-	(3.4)
	(143.9)	48.9	63.8
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges arising during the period	**(4.0)**	(0.8)	(1.7)
Transferred to profit or loss on cash flow hedges	**0.8**	1.6	3.0
Exchange differences on translation of foreign operations	**7.0**	(29.8)	(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)	(0.5)
	3.8	(29.5)	(57.9)
Other comprehensive income and expense for the period	**(140.1)**	19.4	5.9
Net comprehensive income and expense for the period	**(105.6)**	(22.1)	(33.5)
Attributable to:			
EQUITY HOLDERS OF THE COMPANY	**(113.8)**	(28.4)	(44.0)
Non-controlling interests	**8.2**	6.3	10.5
	(105.6)	(22.1)	(33.5)

Condensed consolidated statement of financial position
At 30 June 2016

	Note	**30 June 2016 unaudited US$m**	30 June 2015 unaudited US$m	31 December 2015 audited US$m
Non-current assets				
Intangible assets		**293.4**	260.4	261.2
Property, plant and equipment		**267.0**	280.0	273.0
Investments in joint ventures		**10.6**	12.9	10.8
Available-for-sale investments		**1.5**	1.4	1.5
Deferred tax assets		**14.8**	14.0	12.5
Pension surpluses		**51.1**	49.2	52.5
Trade and other receivables		**18.9**	17.2	16.4
		657.3	635.1	627.9
Current assets				
Inventories		**228.3**	230.3	204.0
Trade and other receivables		**297.4**	316.0	261.9
Available-for-sale investments		**0.2**	0.2	0.2
Pension surpluses		**6.6**	5.6	6.6
Cash and cash equivalents	**11(f)**	**534.7**	679.8	649.9
Assets of disposal group and non-current assets classified as held for sale	**13**	**0.2**	59.1	-
		1,067.4	1,291.0	1,122.6
Total assets		**1,724.7**	1,926.1	1,750.5
Current liabilities				
Trade and other payables		**(315.6)**	(322.6)	(320.7)
Current income tax liabilities		**(11.8)**	(11.9)	(12.5)
Bank overdrafts and other borrowings		**(14.5)**	(8.8)	(20.2)
Retirement benefit obligations:				
- Funded schemes		**(34.8)**	(27.8)	(33.9)
- Unfunded schemes		**(6.0)**	(7.1)	(6.2)
Provisions		**(28.0)**	(33.3)	(44.4)
Liabilities of disposal group classified as held for sale	**13**	**-**	(77.2)	-
		(410.7)	(488.7)	(437.9)
Net current assets		**656.7**	802.3	684.7
Non-current liabilities				
Trade and other payables		**(10.5)**	(11.9)	(12.4)
Deferred tax liabilities		**(33.8)**	(38.9)	(33.0)
Borrowings		**(461.1)**	(439.5)	(389.1)
Retirement benefit obligations:				
- Funded schemes		**(436.6)**	(444.9)	(394.1)
- Unfunded schemes		**(95.5)**	(100.8)	(94.2)
Provisions		**(35.7)**	(30.5)	(35.8)
		(1,073.2)	(1,066.5)	(958.6)
Total liabilities		**(1,483.9)**	(1,555.2)	(1,396.5)
Net assets		**240.8**	370.9	354.0
Equity				
Share capital	**8**	**127.0**	127.0	127.0
Share premium account		**11.6**	11.6	11.6
Own shares	**8**	**(10.5)**	(1.9)	(7.6)
Translation reserve		**(116.1)**	(94.6)	(123.1)
Capital reduction reserve		**85.2**	85.2	85.2
Other reserves		**247.3**	250.0	250.5
Retained loss		**(128.8)**	(28.5)	(14.3)
EQUITY SHAREHOLDERS' FUNDS		**215.7**	348.8	329.3
Non-controlling interests		**25.1**	22.1	24.7
Total equity		**240.8**	370.9	354.0

Condensed consolidated statement of changes in equity
For the half year ended 30 June 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
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 period	-	-	-	(30.0)	-	0.8	0.8	(28.4)	6.3
Dividends	-	-	-	-	-	-	-	-	(8.5)
Purchase of own shares	-	-	(1.9)	-	-	-	-	(1.9)	-
Share based payments	-	-	-	-	-	-	2.8	2.8	-
Balance as at 30 June 2015	127.0	11.6	(1.9)	(94.6)	85.2	250.0	(28.5)	348.8	22.1
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**
Net comprehensive income and expense for the period	**-**	**-**	**-**	**7.0**	**-**	**(3.2)**	**(117.6)**	**(113.8)**	**8.2**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7.8)**
Purchase of own shares	**-**	**-**	**(2.9)**	**-**	**-**	**-**	**-**	**(2.9)**	**-**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**3.1**	**3.1**	**-**
Balance as at 30 June 2016	**127.0**	**11.6**	**(10.5)**	**(116.1)**	**85.2**	**247.3**	**(128.8)**	**215.7**	**25.1**

Condensed consolidated cash flow statement
For the half year ended 30 June 2016

	Note	**Half year 2016 unaudited US$m**	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Cash (outflow)/inflow from operating activities				
Net cash (outflow)/inflow from operations	**11 (a)**	**(31.7)**	(6.2)	108.9
Interest paid		**(7.1)**	(8.8)	(15.3)
Taxation paid	**11 (b)**	**(30.7)**	(24.8)	(49.3)
Net cash (absorbed in)/generated by operating activities		**(69.5)**	(39.8)	44.3
Cash outflow from investing activities				
Investment income	**11 (c)**	**2.4**	8.5	10.0
Net capital expenditure and financial investment	**11 (d)**	**(16.4)**	(17.5)	(31.9)
Acquisitions and disposals	**11 (e)**	**(39.9)**	(5.5)	(26.1)
Net cash absorbed in investing activities		**(53.9)**	(14.5)	(48.0)
Cash inflow/(outflow) from financing activities				
Purchase of own shares		**(2.9)**	(1.9)	(7.6)
Dividends paid to non-controlling interests		**(7.8)**	(8.5)	(10.1)
Net increase in debt and finance leasing		**74.7**	55.3	1.3
Net cash generated by/(absorbed in) financing activities		**64.0**	44.9	(16.4)
Net decrease in cash and cash equivalents		**(59.4)**	(9.4)	(20.1)
Net cash and cash equivalents at beginning of the period		**631.4**	710.4	710.4
Foreign exchange losses on cash and cash equivalents		**(45.6)**	(22.0)	(58.9)
Net cash and cash equivalents at end of the period	**11 (f)**	**526.4**	679.0	631.4
Reconciliation of net cash flow to movement in net cash				
Net decrease in cash and cash equivalents		**(59.4)**	(9.4)	(20.1)
Net increase in debt and lease financing		**(74.7)**	(55.3)	(1.3)
Change in net cash resulting from cash flows (Free cash flow)		**(134.1)**	(64.7)	(21.4)
Other non-cash movements		**(0.8)**	(2.2)	(3.1)
Foreign exchange losses		**(46.6)**	(19.7)	(55.8)
Decrease in net cash		**(181.5)**	(86.6)	(80.3)
Net cash at start of period		**240.6**	320.9	320.9
Net cash at end of period	**11 (f)**	**59.1**	234.3	240.6

1. Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting, as adopted by the European Union, and comply with the disclosure requirements of the Listing Rules of the UK Financial Services Authority.

The condensed consolidated financial statements for the six months ended 30 June 2016 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2015 were also reviewed but not audited.

The information for the year ended 31 December 2015 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). 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 was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or 498(3) of the Companies Act 2006.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, and are expected to be applied in the annual audited financial statements for the current year.

Going concern

At 30 June 2016 the Group had cash totalling $535 million (30 June 2015: $680 million; 31 December 2015: $650 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(f).

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 potential requirement to provide financial support to the Group's UK pension schemes; 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.

Principal exchange rates

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

		June 2016	June 2015	December 2015
Average	Sterling	**0.70**	0.66	0.65
	Euro	**0.90**	0.90	0.90
	Brazilian Real	**3.70**	2.97	3.34
	Indian Rupee	**67.17**	62.80	64.12
Period end	Sterling	**0.75**	0.64	0.68
	Euro	**0.90**	0.90	0.92
	Brazilian Real	**3.21**	3.10	3.96
	Indian Rupee	**67.52**	63.59	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

Six months ended 30 June 2016:

	Industrial US$m	Crafts US$m	Total US$m
Revenue	**609.1**	**110.9**	**720.0**
Segment profit	**80.9**	**0.8**	**81.7**
UK pension scheme administrative expenses			**(4.1)**
Operating profit before exceptional and acquisition related items			**77.6**
Exceptional and acquisition related items			**(2.5)**
Operating profit			**75.1**
Share of profit of joint ventures			**0.4**
Investment income			**2.7**
Finance costs			**(21.0)**
Profit before taxation from continuing operations			**57.2**

Excluding acquisitions in the six months ended 30 June 2016, segment profit for Industrial was $80.6 million and operating profit before exceptional and acquisition related items for the Group was $77.3 million.

Six months ended 30 June 2015:

	Industrial US$m	Crafts US$m	Total US$m
Revenue	615.0	133.1	748.1
Segment profit	66.3	2.8	69.1
UK pension scheme administrative expenses			(4.3)
Operating profit before exceptional and acquisition related items			64.8
Exceptional and acquisition related items			(12.5)
Operating profit			52.3
Share of profit of joint ventures			1.1
Investment income			7.9
Finance costs			(30.9)
Profit before taxation from continuing operations			30.4

2. Operating segments (continued)

Year ended 31 December 2015:

	Industrial US$m	Crafts US$m	Total US$m
Revenue	1,212.5	277.0	1,489.5
Segment profit	135.2	14.4	149.6
UK pension scheme administrative expenses			(10.2)
Operating profit before exceptional and acquisition related items			139.4
Exceptional and acquisition related items			(28.4)
Operating profit			111.0
Share of profit of joint ventures			-
Investment income			10.5
Finance costs			(41.7)
Profit before taxation from continuing operations			79.8

3. Exceptional and acquisition related items

The Group's consolidated income statement format includes results both before and after exceptional and acquisition related items. This is consistent with the way financial performance is measured by management and reported to the Board.

Exceptional items

Exceptional items are set out below:

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Exceptional items:			
Cost of sales:			
US environmental costs	**-**	6.5	13.2
Reorganisation costs – Mexico	**-**	2.7	3.3
	-	9.2	16.5
Distribution costs:			
Closure costs – UK Crafts	**0.8**	-	-
Administrative expenses:			
Closure costs – UK Crafts	**0.2**	-	-
Capital incentive plan charge	**-**	0.7	1.3
UK Pensions Regulator ('tPR') investigation costs	**-**	-	5.7
Reorganisation costs – overhead reduction programme	**-**	2.6	14.1
	1.0	3.3	21.1
Other operating income:			
Profit on the sale of property	**-**	-	(9.2)
Share of profits of joint ventures:			
Loss on disposal of joint venture	**-**	-	1.5
Total exceptional items before taxation	**1.0**	12.5	29.9

3. Exceptional and acquisition related items (continued)

Exceptional items (continued)

Following on from the disposal of the EMEA Crafts business in 2015, Coats is to close its loss-making UK Crafts operations. A provision for the expected costs of closure of $1.0 million has been included as an exceptional charge for the six months ended 30 June 2016. It is anticipated that the business will cease operations by the end of 2016 and be treated as a discontinued item in the full year 2016 results.

Net exceptional costs before taxation in 2015 were as follows:

- costs related to the consolidation of Coats' Mexican operations from three sites to two were $3.3 million (30 June 2015: $2.7 million). The gain on disposal of the property in Mexico was $9.2 million (30 June 2015: $nil) thereby generating an overall positive contribution of $5.9 million;
- with the sale of EMEA Crafts, 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 (six months ended 30 June 2015: $2.6 million);
- US environmental costs were $13.2 million (30 June 2015: $6.5 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 (30 June 2015: $nil) in relation to the expected costs of the ongoing UK Pensions Regulator ('tPR') investigations;
- a loss on disposal of $1.5 million (30 June 2015: $nil) was recognised on the sale of Coats' share in a Philippines joint venture; and
- other exceptional costs of $1.3 million (30 June 2015: $0.7 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:

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Acquisition related items:			
Administrative expenses:			
Acquisition transaction costs	**1.0**	-	-
Contingent consideration linked to employment	**0.3**	-	-
Amortisation of acquired intangibles	**0.2**	-	-
Total acquisition related items before taxation	**1.5**	-	-

During the six months ended 30 June 2016, the Group completed the acquisitions of Gotex S.A. and Fast React Systems Limited (see note 12 for further details).

4. Investment income

	Half year 2016 unaudited	Half year 2015 unaudited	Full year 2015 audited
	US$m	US$m	US$m
Interest receivable on Parent Group cash *	**1.4**	3.0	4.9
Other interest receivable and similar income	**1.0**	4.5	4.9
Income from other investments	**0.3**	0.4	0.7
	2.7	7.9	10.5

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

5. Finance costs

	Half year 2016 unaudited	Half year 2015 unaudited	Full year 2015 audited
	US$m	US$m	US$m
Interest on bank and other borrowings	**7.3**	9.5	16.8
Net interest on pension scheme assets and liabilities	**7.1**	8.6	17.1
Foreign exchange losses on Parent Group cash *	**-**	12.3	3.2
Other finance costs including unrealised gains and losses on foreign exchange contracts	**6.6**	0.5	4.6
	21.0	30.9	41.7

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

6. Taxation

The taxation charges for the six months ended 30 June 2016 and 30 June 2015 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

For the six months ended 30 June 2016 the tax credit in respect of exceptional items was $nil (30 June 2015: $2.9 million). For the year ended 31 December 2015 the tax credit in respect of exceptional items was $2.5 million.

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 of the parent and the weighted average number of Ordinary Shares in issue during the six months ended 30 June 2016 of 1,383,560,539 (six months ended 30 June 2015: 1,406,285,528; year ended 31 December 2015: 1,400,765,325), which excludes shares held by the Employee Benefit Trust.

The calculation of basic earnings/(loss) per Ordinary Share from continuing and discontinued operations is based on the profit/(loss) attributable to equity shareholders of the parent. 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.

For the calculation of diluted earnings/(loss) per Ordinary Share, the weighted average number of Ordinary Shares in issue is adjusted, where appropriate, to assume conversion of all dilutive potential Ordinary Shares, being share based awards granted to employees.

8. Issued share capital

There were no changes in issued share capital during the six months ended 30 June 2016.

	Number of Shares	US$m
At 1 January 2016 and at 30 June 2016	**1,407,612,282**	**127.0**

The own shares reserve of $10.5 million at 30 June 2016 (31 December 2015: $7.6 million; 30 June 2015: $1.9 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 30 June 2016 was 25,900,080 (31 December 2015: 17,625,636; 30 June 2015: 4,671,378).

9. Dividends

No dividend was paid during the period or approved in respect of the period (31 December 2015: $nil; 30 June 2015: $nil).

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 55 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 is currently engaged in negotiations with one party that 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 LPR. 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 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 30 June 2016, $2.1 million of this provision had been utilised.

10. US environmental matters (continued)

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 six months ended 30 June 2016 was $nil (six months ended 30 June 2015: $6.0 million; year ended 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 condensed consolidated cash flow statement

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

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Operating profit	**75.1**	52.3	111.0
Depreciation	**16.2**	18.0	34.6
Amortisation of intangible assets	**4.2**	3.9	9.0
Reorganisation costs (see note 3)	**-**	5.3	17.4
Exceptional profit on sale of property (see note 3)	**-**	-	(9.2)
Other operating exceptional and acquisition related items (see note 3)	**2.5**	7.2	20.2
Operating profit before exceptional and acquisition related items, depreciation and amortisation (EBITDA)	**98.0**	86.7	183.0
(Increase)/decrease in inventories	**(18.1)**	(11.9)	2.9
Increase in debtors	**(25.7)**	(41.0)	(11.5)
Decrease in creditors	**(11.0)**	(8.8)	(6.6)
Provision and pension movements	**(76.3)**	(19.7)	(47.4)
Currency and other non-cash movements	**1.4**	(1.2)	3.2
Discontinued operations	**-**	(10.3)	(14.7)
Net cash (outflow)/inflow from operations	**(31.7)**	(6.2)	108.9

b) Taxation paid

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Overseas tax paid	**(30.7)**	(25.0)	(49.3)
Discontinued operations	**-**	0.2	-
	(30.7)	(24.8)	(49.3)

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

c) Investment income

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Interest and other income	**1.4**	6.7	8.2
Dividends received from joint ventures	**1.0**	1.8	1.8
	2.4	8.5	10.0

d) Capital expenditure and financial investment

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Acquisition of property, plant and equipment and intangible assets	**(17.5)**	(18.1)	(44.3)
Disposal of available-for-sale investments	**-**	0.3	0.1
Disposal of property, plant and equipment	**1.1**	0.7	12.9
Discontinued operations	**-**	(0.4)	(0.6)
	(16.4)	(17.5)	(31.9)

e) Acquisitions and disposals

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Acquisition of businesses	**(35.4)**	(5.5)	(5.5)
Investment in joint venture	**(0.4)**	-	-
Net receipts from sale of joint venture	**-**	-	1.1
Discontinued operations (note 13)	**(4.1)**	-	(21.7)
	(39.9)	(5.5)	(26.1)

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

f) Summary of net cash

	30 June 2016 unaudited US$m	30 June 2015 unaudited US$m	31 December 2015 audited US$m
Parent group cash and cash equivalents *	**396.0**	552.4	504.6
Other group cash and cash equivalents	**138.7**	127.4	145.3
Total cash and cash equivalents	**534.7**	679.8	649.9
Bank overdrafts	**(8.3)**	(3.6)	(18.5)
Net cash and cash equivalents	**526.4**	676.2	631.4
Other borrowings	**(467.3)**	(444.7)	(390.8)
Total net cash (excluding net cash and cash equivalents held for sale)	**59.1**	231.5	240.6
Net cash and cash equivalents held for sale	**-**	2.8	-
Total net cash	**59.1**	234.3	240.6

Total net cash and cash equivalents including net cash and cash equivalents held for sale was $526.4 million at 30 June 2016 (31 December 2015: $631.4 million; 30 June 2015: $679.0 million).

Excluding Parent group cash, net debt at 30 June 2016 was $336.9 million (31 December 2015: $264.0 million, 30 June 2015: $318.1 million).

* 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.

In May 2016, the Group 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 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.

The consideration transferred net of cash and cash equivalents acquired for Gotex and Fast React was $27.9 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 at 30 June 2016 of $2.2 million represents the fair value of the estimated payable based on current expectations of performance.

12. Acquisitions (continued)

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 six months ended 30 June 2016 was $0.3 million (see note 3).

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	-	4.5	4.5
Property, plant and equipment	0.9	0.1	1.0
Inventories	3.1	-	3.1
Trade and other receivables	4.4	4.2	8.6
Cash and cash equivalents	2.4	4.0	6.4
	10.8	12.8	23.6
Liabilities			
Trade and other payables	(3.1)	(5.5)	(8.6)
Deferred tax liabilities	(0.1)	(0.8)	(0.9)
Total identifiable net assets acquired at fair value	7.6	6.5	14.1
Goodwill recognised on acquisition (provisional)	24.9	4.6	29.5
	32.5	11.1	43.6
Purchase consideration paid	30.3	11.1	41.4
Contingent purchase consideration estimated to be paid	2.2	-	2.2
Total consideration	32.5	11.1	43.6

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 $4.6 million. This goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across the Coats Global Services business; and
- the ability to exploit the Group’s existing customer base.

Given the date of the acquisition of Gotex, it has not been practicable to complete the valuation of the assets and liabilities acquired, including any intangible assets. Therefore, as permitted by IFRS 3, the excess of the consideration over the provisional net assets acquired has all been provisionally allocated to goodwill amounting to $24.9 million.

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

12. Acquisitions (continued)

From the date of acquisition, Gotex contributed $1.5 million to revenues and $0.3 million to the profit before tax from continuing operations of the Group. Fast React contributed $0.6 million to revenues and $nil million to the profit before tax from continuing operations of the Group.

If the acquisitions had taken place at the beginning of the year, it is estimated that revenue from continuing operations for the six months ended 30 June 2016 would have been $8.9 million for Gotex and $3.1 million for Fast React and the profit from continuing operations for the six months ended 30 June 2016 would have been $1.5 million for Gotex and $0.3 million for Fast React, based on unaudited management accounts.

Transaction costs relating to the acquisitions of Gotex and Fast React totalling $1.0 million have been expensed and are included in administrative expenses in the condensed consolidated income statement (see note 3). Transaction costs paid in the six months ended 30 June 2016 were $0.4 million and are included in cash flows absorbed in investing activities in the condensed consolidated cash flow statement.

The gross and net carrying amount of goodwill at 1 January 2016 was $5.5 million. During the six months ended 30 June 2016 there has been provisional goodwill recognised on acquisitions during the period of $29.5 million and adjustments to previously recognised provisional goodwill of $0.4 million offset by foreign currency translation differences of $1.4 million resulting in the gross and net carrying amount of goodwill at 30 June 2016 of $34.0 million.

13. Discontinued operations and assets held for sale

On 31 July 2015 the Group completed the sale of its EMEA Crafts business to the Aurelius Group. The results of discontinued operations are presented below. All amounts relate to EMEA Crafts other than where stated.

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Revenue	**-**	42.1	47.8
Cost of sales	**-**	(20.2)	(23.6)
Gross profit	**-**	21.9	24.2
Distribution costs	**-**	(22.3)	(25.5)
Administrative expenses	**-**	(5.7)	(11.2)
Operating loss	**-**	(6.1)	(12.5)
Investment income	**-**	-	0.1
Finance costs	**-**	(0.1)	(0.3)
Loss before taxation	**-**	(6.2)	(12.7)
Tax on loss	**-**	-	-
Loss for the period	**-**	(6.2)	(12.7)
Loss on disposal	**-**	-	(55.8)
Exchange loss transferred to profit or loss on disposal	**-**	-	(7.5)
Loss arising on measurement to fair value less cost to sell	**-**	(46.0)	-
Exchange gain transferred to profit or loss on sale of legacy investment	**-**	0.5	0.5
Total loss from discontinued operations	**-**	(51.7)	(75.5)

13. Discontinued operations and assets held for sale (continued)

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

	Half year 2016 unaudited Cents	Half year 2015 unaudited Cents	Full year 2015 audited Cents
Loss per ordinary share from discontinued operations:			
Basic and diluted	**-**	(3.68)	(5.39)

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

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Net cash outflow from operating activities	**-**	(10.1)	(14.7)
Net cash outflow from investing activities	**(4.1)**	(0.4)	(22.3)
Net cash flows from discontinued operations	**(4.1)**	(10.5)	(37.0)

Assets held for sale

The assets and liabilities classified as held for sale consist of the following:

	30 June 2016 unaudited US$m	30 June 2015 unaudited US$m	31 December 2015 audited US$m
Assets of disposal group classified as held for sale	**-**	58.5	-
Non-current assets classified as held for sale	**0.2**	0.6	-
Total assets of disposal group and non-current assets classified as held for sale	**0.2**	59.1	-
Liabilities of disposal group classified as held for sale	**-**	(77.2)	-
Total net assets classified as held for sale	**0.2**	(18.1)	-

The non-current assets held for sale are property, plant and equipment of $0.2 million (30 June 2015: $0.6 million, 31 December 2015: $nil).

At 30 June 2015 assets and liabilities of the disposal group classified as held for sale all related to EMEA Crafts.

14. Non-GAAP financial measures

The non-GAAP financial measures included in this report provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all 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. Further details of the Group's KPIs are set out on page 27 of the 2015 Annual Report.

a) Organic revenue

Organic revenue is revenue from continuing operations excluding revenue from acquisitions made in the current period as set out below:

	Half year 2016 unaudited US\$m	Half year 2015 unaudited US\$m	Full year 2015 audited US\$m
Revenue from continuing operations	**720.0**	748.1	1,489.5
Revenue from acquisitions made in the six months ended 30 June 2016	**(2.1)**	-	-
Organic revenue	**717.9**	748.1	1,489.5

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:

	Half year 2016 unaudited US\$m	Half year 2015 unaudited US\$m	Full year 2015 audited US\$m
Profit from continuing operations	**34.5**	10.2	36.1
Non-controlling interests	**(8.2)**	(6.6)	(11.2)
Profit from continuing operations attributable to equity shareholders	**26.3**	3.6	24.9
Exceptional and acquisition related items (note 3)	**2.5**	12.5	29.9
Foreign exchange losses on Parent group cash *	**-**	12.3	3.2
Tax credit in respect of exceptional and acquisition related items	**-**	(2.9)	(2.5)
Adjusted profit from continuing operations	**28.8**	25.5	55.5
Weighted average number of Ordinary Shares	**1,383,560,539**	1,406,285,528	1,400,765,325
Adjusted earnings per share (cents)	**2.08**	1.82	3.96

* 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 is the same as that used for basic earnings per Ordinary Share from continuing operations (see note 7).

14. Non-GAAP financial measures (continued)

b) Adjusted earnings per share (continued)

Adjusted earnings per share for the six months ended 30 June 2015 on a constant exchange rate basis (restates 2015 figures at 2016 exchange rates) is 1.68 cents and is calculated on a basis consistent with the above. Adjusted profit from continuing operations on a constant exchange rate basis for the six months ended 30 June 2015 was $23.6 million. The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the six months ended 30 June 2015 on a constant exchange rate basis is 1,406,285,528 being the weighted average number of Ordinary Shares for the six months ended 30 June 2015.

c) Adjusted free cash flow

A reconciliation of the change in net cash resulting from cash flows (free cash flow), the most comparable GAAP measure, to adjusted free cash flow is set out below:

	Half year 2016 unaudited US$m	Half year 2015 unaudited US$m	Full year 2015 audited US$m
Change in net cash resulting from cash flows (free cash flow)	**(134.1)**	(64.7)	(21.4)
Acquisition of businesses (note 12)	**35.4**	5.5	5.5
Net cash flows from discontinued operations (note 13)	**4.1**	10.5	37.0
Net cash outflow in respect of reorganisation costs	**6.7**	3.0	10.4
Net cash inflow from property disposals	**-**	-	(9.9)
UK Pensions Regulator (‘tPR’) investigation costs	**2.3**	6.3	8.9
Payments to UK pension schemes	**64.9**	11.7	33.8
Net cash flows in respect of other exceptional items	**3.3**	2.9	1.3
Purchase of own shares by Employee Benefit Trust	**2.9**	1.9	7.6
Tax (inflow)/outflow in respect of adjusted cash flow items	**(0.1)**	-	0.7
Adjusted free cash flow	**(14.6)**	(22.9)	73.9

Comparative amounts for the six months ended 30 June 2015 have been reported on a basis consistent with amounts presented for the six months ended 30 June 2016 and for the year ended 31 December 2015.

Adjusted free cash flow on a last twelve months’ basis to 30 June 2016 was $82.2 million (30 June 2015: $75.0 million).

14. Non-GAAP financial measures (continued)

d) Return on capital employed

Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items on a last twelve months' basis divided by period end capital employed as set out below:

	30 June 2016 unaudited US$m	30 June 2015 unaudited US$m	31 December 2015 audited US$m
Operating profit before exceptional and acquisition related items on a last twelve months' basis	**152.2**	125.2	139.4
Non-current assets			
Property, plant and equipment	**267.0**	280.0	273.0
Trade and other receivables	**18.9**	17.2	16.4
Current assets			
Inventories	**228.3**	230.3	204.0
Trade and other receivables	**297.4**	316.0	261.9
Current liabilities			
Trade and other payables	**(315.6)**	(322.6)	(320.7)
Non-current liabilities			
Trade and other payables	**(10.5)**	(11.9)	(12.4)
Capital employed	**485.5**	509.0	422.2
ROCE	**31%**	24%	33%

15. Fair value of assets and liabilities

As at 30 June 2016 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not observable market data (unobservable inputs).

15. Fair value of assets and liabilities (continued)

Financial assets measured at fair value

30 June 2016	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Trading derivatives	**2.5**	-	**2.5**	-
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	**1.7**	-	-	**1.7**
Derivatives designated as effective hedging instruments	**-**	-	-	-
Total	**4.2**	-	**2.5**	**1.7**

30 June 2015	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Trading derivatives	4.5	-	4.5	-
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	1.7	-	-	1.7
Bonds	1.4	1.4	-	-
Derivatives designated as effective hedging instruments	0.3	-	0.3	-
Total	7.9	1.4	4.8	1.7

31 December 2015	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Trading derivatives	3.1	-	3.1	-
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	1.7	-	-	1.7
Derivatives designated as effective hedging instruments	0.3	-	0.3	-
Total	5.1	-	3.4	1.7

15. Fair value of assets and liabilities (continued)

Financial liabilities measured at fair value

30 June 2016	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(7.9)**	-	**(7.9)**	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**(3.2)**	-	**(3.2)**	-
Total	**(11.1)**	-	**(11.1)**	-

30 June 2015	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(2.7)	-	(2.7)	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(0.8)	-	(0.8)	-
Total	(3.5)	-	(3.5)	-

31 December 2015	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(4.2)	-	(4.2)	-
Financial liabilities measured at fair value through the statement of comprehensive income				
Derivatives designated as effective hedging instruments	(0.3)	-	(0.3)	-
Total	(4.5)	-	(4.5)	-

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

16. Principal risks and uncertainties

There have been no changes to the principal risks and uncertainties compared to those outlined on pages 30 to 33 of the 2015 Annual Report, comprising:

High impact operational risks – risks inherent in the Group's ongoing commercial operations and geographical footprint, which, if not effectively managed would be liable to cause significant commercial disruption. The principal high impact operational risks are product liability, environmental non-performance, failure of critical infrastructure, data controls and security and bribery and anti-competitive behaviour.

Material legacy risks – risks relating to the Group's past operations and activities, including through historical mergers and acquisitions, which could create material financial exposure for the Group in its current form. The principal material legacy risks are pensions investigation and pension scheme deficit funding and legacy environmental risks.

Risks to strategy delivery – risks that could adversely impact the Group's ability to achieve its defined strategic objectives. The principal risks to strategy delivery are mergers and acquisitions (M&A) programme – execution and integration, appropriate capability development, joint ventures/minority shareholder relationships, supply and supplier risk and emergence of disruptive competitor behaviour in core markets.

Although too early to provide a definitive assessment of the impact of the UK voting to leave the European Union, the Company is of the view that there would be limited direct adverse impacts on the Group. Indirect factors have already impacted Coats and may continue to do so in the near and longer term, notably macroeconomic uncertainty (see page 9 for further details).

17. Seasonality

The Group's revenues and profits have not historically been subject to significant seasonal trends. The working capital cycle of Coats' business means that cash inflow trends have historically been weighted towards the second half of the financial year.

18. Related party transactions

There have been no related party transactions or changes in related party transactions described in the 2015 Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

19. Directors

The following persons were, except where noted, directors of Coats Group plc during the half year ended 30 June 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	
D Gosnell	
R Howes	(Resigned 6 April 2016)
A Rosling CBE	
R Sharma	

F Philips will be appointed as a Non-Executive Director in October 2016.

20. Publication

This statement will be available at the registered office of the Company, 1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD. A copy will also be displayed on the Company's website on www.coats.com.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

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

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

The Directors of Coats Group plc are listed in Note 19 to the Condensed Consolidated Financial Statements.

By order of the Board,

On behalf of the Board
M Clasper
Chairman
28 July 2016

United Kingdom

1 The Square, Stockley Park, Uxbridge, UB11 1TD Tel: 020 210 5000

Registered in England No. 103548