



1 March 2019

Coats Group plc 2018 Full Year Results

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, announces its unaudited Full Year Results for the year ended 31 December 2018.

<i>Continuing operations</i> ⁴	2018	2017 (restated ⁵)	Change	CER change ¹	Organic change ¹
Revenue	\$1,415m	\$1,356m	4%	6%	3%
Adjusted ¹					
Operating profit	\$195m	\$161m	21%	24%	23%
Operating margin	13.8%	11.8%	190bps	200bps	220bps
Basic earnings per share	6.9c	5.7c	21%		
Free cash flow	\$96m	\$76m	26%		
Return on capital employed (ROCE)	43%	35%	800bps		
Reported ^{3,4}					
Operating profit	\$147m	\$154m	(5)%		
Basic earnings per share	3.9c	5.1c	(25)%		
Net cash generated by operating activities ²	\$102m	\$(232)m	n/a		
Full year dividend per share	1.66c	1.44c	15%		
(Loss)/profit from discontinued operations	\$(16)m	\$10m	n/a		

Financial highlights

- Revenue growth of 6% on a CER basis (4% reported), with 3% organic growth and a 3% contribution from the acquisition of Patrick Yarn Mill.
- Continued organic revenue growth in Apparel and Footwear (thread up 4%) and accelerated organic growth in Performance Materials (up 7%).
- Adjusted operating profit up 24% on a CER basis; adjusted operating margin up 200bps to 13.8%.
- Adjusted EPS up 21% to 6.9 cents as a result of higher adjusted operating profits, a further reduction in effective tax rate, a lower pension finance charge, with some offset from foreign exchange and interest.
- Adjusted free cash flow of \$96 million; up 26% on prior year due to increased adjusted operating profits and controlled NWC, whilst maintaining capital expenditure ahead of depreciation.
- Reported operating profit of \$147 million (down 5%) and basic EPS of 3.9 cents (down 25%), primarily due to increased exceptional costs of \$48 million (mostly not tax deductible) in relation to Connecting for Growth, the UK guaranteed minimum pension equalisation, and Lower Passaic River legal costs.

Strategic highlights

- Sale of non-core North America Crafts business completed on 20 February 2019 for \$37 million, with resulting exceptional impairment to recognise net assets at fair value.
- Connecting for Growth programme benefits being realised faster than initially anticipated; \$15 million net benefits delivered in 2018 (reorganisation cost of \$23 million incurred in year).
- Agreement in principle of Coats UK Pension Scheme triennial valuation with agreed annual deficit contributions (including estimated administrative expenses) of \$31 million p.a. from 1 April 2019 (currently \$24 million p.a.)

Commenting Rajiv Sharma, Group Chief Executive, said:

‘Coats delivered a strong performance in 2018. Our Apparel and Footwear business delivered continued market share gains by providing on-going high service levels, and we saw increased momentum in our Performance Materials business. In an environment of rising input costs, we were able to grow our operating margins, through realising price increases, delivering productivity and procurement gains, as well as keeping tight control of our cost base and delivering significant savings from our Connecting for Growth programme in its first year. Following this strong performance in 2018 we have announced a full year dividend per share of 1.66 cents, which represents a 15% year-on-year increase, and reflects the Board’s confidence in our strategy.

‘To further support delivery of our strategy, we completed the acquisition of Threadsol whose cloud-based software solutions incorporate artificial intelligence and provide an excellent fit with the existing Coats Global Services business. We now have a complementary suite of software solutions for the apparel and footwear industries that will enable brands, retailers and manufacturers to drive productivity gains, supply chain control and speed to market. In addition to Threadsol, we also made a strategic investment in Twine Solutions, who have developed a revolutionary digital thread dyeing system, which aims to address the key needs of our customers of speed, innovation and sustainability.

‘We enter 2019 in a strong position, with continued positive momentum in our core Apparel and Footwear and hi-tech Performance Materials businesses. The exit of our non-core North American Crafts business will ensure complete focus on growing our remaining businesses organically and identifying further value-add bolt-on acquisitions.

‘Whilst we are cautious around the current macroeconomic uncertainties, based on our current assessment of business trends we remain confident in delivering another year of improving performance through effective execution of our strategy.’

- 1 All Non-statutory measures (Alternative Performance Measures) are reconciled to the nearest corresponding statutory measure in note 14. Organic growth is on a CER basis excluding contributions from bolt-on acquisitions. Constant exchange rate (CER) figures are 2017 restated at 2018 exchange rates. Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.
- 2 Net cash generated by operating activities includes \$373 million payments into the three UK defined benefit schemes in 2017.
- 3 Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.
- 4 All figures on a continuing basis (i.e. exclude North America Crafts which is presented as a discontinued operation), unless otherwise stated.
- 5 Restated to include continuing results following NA Crafts disposal and to reflect the adoption of IFRS15

Conference call

Coats Management will discuss this report in a webcast / conference call with analysts and investors at 0900 GMT today (1 March 2019). The webcast can be accessed via www.coats.com/investors/fy2018. The conference call can be accessed by dialling +44 (0)20 3936 2999 and using participant access code '92 90 68'. The webcast will also be made available in archive form on www.coats.com.

Enquiry details

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About Coats Group plc

Coats is the world’s leading industrial thread company. At home in some 50 countries, Coats has a workforce of 18,000 people across six continents. Revenues in 2018 were US\$1.4bn. Coats’ pioneering history and innovative culture ensure the company continues leading the way around the world. It provides complementary and value added products, services and software solutions to the apparel and footwear industries. It applies innovative techniques to develop high technology Performance Materials threads, yarns and fabrics in areas such as automotive composites, fibre optics and Oil and Gas. Headquartered in the UK, Coats is a FTSE 250 company and is a constituent of the FTSE4Good Index Series. To find out more about Coats visit www.coats.com.

Operating review

<i>Industrial continuing operations</i>	2018	2017 ⁶	Inc / (dec)	2017 CER ¹	CER ¹ inc/(dec)	Organic ⁵ inc/(dec)
	\$m	\$m	%	\$m	%	%
Revenue ²						
By business						
Apparel and Footwear ³	1,083	1,081	0%	1,059	2%	2%
Performance Materials	332	275	20%	271	23%	7%
Total	1,415	1,356	4%	1,329	6%	3%
By region						
Asia	791	759	4%	750	5%	5%
Americas ³	349	323	8%	312	12%	(1)%
EMEA	275	274	0%	267	3%	3%
Total	1,415	1,356	4%	1,329	6%	3%
Adjusted operating profit ^{2,4}	195	161	21%	157	24%	23%
Adjusted operating margin ^{2,4}	13.8%	11.8%	190bps	11.8%	200bps	220bps

¹ 2017 figures at 2018 exchange rates

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

³ Now includes Latin America Crafts

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

⁵ On a CER basis excluding contributions from bolt-on acquisitions

⁶ Restated to include continuing results following NA Crafts disposal and to reflect the adoption of IFRS15

Revenues from Industrial continuing operations increased 4% on a reported basis, with 6% growth on a CER basis offset by a 2% foreign exchange translation headwind. The 6% CER growth consisted of 3% organic growth and a 3% contribution from the acquisition of Patrick Yarn Mill (acquired in December 2017). This strong performance was due to continued momentum in the Apparel and Footwear business (~75% of Group revenues) which was up 2% on a restated basis, and accelerated growth in our Performance Materials business with 23% growth (7% organic growth and 16% contribution from the Patrick Yarn Mill acquisition).

Adjusted operating profit from Industrial continuing operations increased 24% to \$195 million on a CER basis (2017: \$157 million) and operating margins were up 200 bps to 13.8% (2017: 11.8%). Year-on-year productivity and procurement improvements broadly offset other structural inflation (e.g. wages and energy) and manufacturing variances due to lower activity levels in certain territories (e.g. Americas). The raw material cost increases seen during the year (partly linked to the rising oil price) were recovered in full through price however this one-to-one value recovery resulted in a dampening of the reported gross margin percentage. Operating margin progression was driven by continued cost control and the initial benefits from the Connecting for Growth programme that have been realised faster than initially anticipated (\$15 million net savings, after reinvestments).

On an organic basis, operating margins increased by 220bps, which is above the CER increase of 200bps, as the latter was impacted by the anticipated initial dilution of margins from the Patrick Yarn Mill acquisition. Over time and in line with the business plan, it is anticipated that Patrick Yarn margins will trend towards Group levels.

On a reported basis, operating profit (which is after exceptional and acquisition related items) decreased 5% to \$147 million (2017: \$154 million), primarily due to the initial exceptional reorganisation cost incurred in relation to the Connecting for Growth programme, the UK guaranteed minimum pension equalisation, and a further accrual for Lower Passaic River (LPR) legal costs.

Apparel and Footwear (A&F)

In A&F, our core thread business continued its strong growth (up 4%) as key Asian markets performed strongly, although the headline growth of 2% was impacted by slower demand for zips due to certain in year fashion trends, and a 15% decline in Latin America Craft sales (previously reported within the Crafts division). This strong thread performance delivered further market share gains, despite continued mixed demand from retailers, and

was underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility and sustainability credentials.

Coats' ability to continue to take market share was assisted 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. For example, there were further enhancements to our customer facing eCommerce platform, such as automated payment reminders via the use of data analytics. In addition, revenue growth was further supported by the launch of innovative new products, for example providing an engineered footwear yarn solution for the China domestic market, and we have developed various new innovative threads to enhance customers' quality of products in high impact end uses (e.g. denim and anti-wicking). Our innovation credentials have been further enhanced by the opening of our first global Innovation Hub in North Carolina, US, and two new hubs will be opened in Turkey and China in H1 2019. These facilities provide opportunities to collaborate with our customers and brands, and work with them to create innovative new product solutions to meet their specific design needs.

Performance Materials

Performance Materials revenues grew 23% in the period on a CER basis (20% reported), which includes a 16% contribution from the acquisition of Patrick Yarn Mill (acquired in December 2017). Organic growth of 7% showed an accelerating trend during the year (5% organic growth in H1) and was driven by strong growth in many of our key emerging markets as we continued to drive geographic expansion of existing products across the Coats portfolio, and leveraging Coats' global customer base.

Growth in hi-tech end uses (for example flame retardant yarns and telecommunications) which now account for around 60% of Performance Materials revenues remained strong throughout the period delivering 21% organic growth. The business also continued to grow revenues in new, innovative products, and over 20% of our organic Performance Materials revenues were in relation to products that did not exist five years ago (for example, Coats Synergex and Flamepro). The US consumer durables market (e.g. "traditional" end uses such as bedding) remained relatively soft.

Geographical performance

By geography, we saw strong organic revenue growth in Asia (up 5% on a CER basis) as momentum in key A&F markets (e.g. Vietnam, Indonesia, Bangladesh and India) continued. Revenues in EMEA rose 3%, which followed the strong growth seen in 2017 of 9%. This reduced growth was partly due to lost revenues from certain peripheral markets that were exited in the period (as part of the Connecting for Growth programme), and softer zips demands. In the Americas, organic revenues decreased marginally, where an encouraging performance in certain Latam markets (e.g. Performance Materials revenues in Brazil and Mexico which both saw strong double digit growth), was offset by the US consumer durables market remaining relatively soft, and a 15% decline in Latin America Crafts revenues (previously reported within Crafts division) due to weakness in the key markets of Brazil and Argentina.

Connecting for Growth programme

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

The majority of the programme savings are to be achieved from reducing complexity in the existing Group. For example, we have transitioned from market-focused support functions (e.g. Finance, HR, Technology) to realigned globally integrated support functions; we have redesigned the way we service a number of our peripheral markets; and we have moved from a business operated by individual local management teams into eight scalable clusters.

Good progress was made in 2018, and as a result, initial net benefits (after reinvestments), are being realised faster than initially anticipated with \$15 million net benefits to adjusted operating profit realised in 2018 (previous guidance \$10 million). \$23 million of the anticipated \$30 million total exceptional reorganisation charge has been incurred in 2018, with the remainder anticipated to be incurred in 2019.

As a result of the good progress made to date we anticipate net benefits (after reinvestments) of \$23 million in 2020 when the programme is scheduled to complete.

UK pensions triennial valuation update

Following the merger of its three UK pension schemes in June 2018, the Group and the scheme Trustee have successfully concluded the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date, subject to completion of formal documentation.

The Group has agreed in principle ongoing annual deficit recovery payments of £20 million (\$26 million) per annum increasing annually by the increase in the Retail Price Index (first increase in January 2020) based on a Technical Provisions deficit of around £250 million (\$319 million). The latest Technical Provisions deficit is significantly lower than the last triennial valuation deficit (31 March 2015) of £582 million (\$743 million) due to upfront lump-sum payments into the scheme of £329 million (\$420 million), the ongoing deficit recovery payments, with some offset from other valuation factors (primarily as a consequence of a reduction in real UK discount rates since March 2015).

As before, the Group will also meet Scheme administrative expenses and levies estimated at £4 million (\$5 million) per annum in the future (i.e. total ongoing payments of £24 million (\$31 million) per annum). The new deficit recovery payments will be effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous three UK schemes.

The previously agreed level of deficit recovery contributions was £17.5 million (\$24 million), including estimated administration expenses and levies. As a result of the timing of the start of the new contributions, 2019 deficit recovery contributions, including estimated administration expenses and levies, are anticipated to be £22 million (\$29 million).

Discontinued operations - sale of North America Crafts

On 22 January 2019, it was announced that we had agreed to sell the non-core North America Crafts business to Spinrite Acquisition Corp, a leading provider of craft products in North America. This transaction was subsequently completed on 20 February 2019. The headline acquisition proceeds were \$37m, which was on a debt and cash free basis, and was subject to an adjustment for the level of net working capital as at the time of completion.

The sale of our standalone North America Crafts business allows the Group to focus completely on the high performing business-to-business global Apparel and Footwear, and Performance Materials businesses. The sale proceeds will initially be used to reduce Group net debt, and subsequently to fund further value accretive bolt-on acquisitions principally in the strategic focus areas of high growth and hi-tech Performance Materials and Software Solutions businesses.

In 2018 the North America Crafts business generated sales of \$128 million (2017: \$150 million) and an operating profit of \$3 million (pre an allocation of corporate costs) (2017: \$13 million). The declining revenues in 2018 reflect the impact of the first half sale of the smaller lifestyle fabrics business (\$10 million revenues in H2 2017), the introduction of own-label handknitting products at a major customer (which commenced in H2 2017), and general weak market conditions.

North America Crafts results, which include the results of the smaller lifestyles fabrics business, are reported as discontinued operations in the Group financial results (2017 results also restated), and an exceptional impairment charge to reduce the net assets to fair value of \$18 million (which includes costs to complete the transaction) has been recorded in 2018 accordingly. We anticipate approximately \$2 million of stranded costs will remain with the continuing Industrial business in North America following the disposal of the Crafts business.

The segmental reporting of Coats Group plc has been amended (with 2017 comparatives restated accordingly) to report the smaller Latin America Crafts business within the Industrial segment following its integration with the wider Latin America business. Following the sale of the North America Crafts business future segmental reporting is under review, and is anticipated to be reflected in the H1 2019 financial results due to be released in August.

Board change

Mike Allen, a non-executive director since 2010, will not be standing for re-election as a Director at the 2019 AGM, to be held on 23 May 2019. The Board would like to thank Mike for his insightful guidance and contribution to the Board over the nine years of his tenure. Mike has played a key part in steering significant change to the Group, as we restructured the Guinness Peat Group and Coats Boards, transitioned from an investment holding company to a UK headquartered manufacturing business, normalised our UK pension obligations following the settlement of the regulatory investigations, and entered the FTSE 250.

Pioneering a sustainable future

Coats remains committed to adopting a leadership position within the industries it operates, in the areas of Corporate Responsibility and Sustainability, in order to ensure we meet the ever growing expectations of our various stakeholder groups (e.g. consumers, customers, employees, communities and shareholders) and continue to underpin our market share gains. We have today launched our annual Sustainability Report (see www.Coats.com) which sets out our strategy and future targets in this area, which are above and beyond the significant progress that we are proud to have made to date.

Our five identified key priority areas, and associated 2022 targets, to drive accelerated progress are as follows:

- Water – without water we cannot, today, make thread. It is a vital and shared resource and we need to make sure we use it efficiently, particularly as water is scarce in some parts of the world – by 2022 we will reduce our usage of water by 40%.
- Energy – the use of fossil fuels and the associated greenhouse emissions contribute to climate change. Coats has a responsibility to reduce our contribution and mitigate these risks – by 2022 we will source significantly more renewables and we will reduce our use of energy by 7%.
- Effluent and emissions – we aim to ensure that the water we discharge is safe and will not damage the environment around our factories – we aim to build on Coats existing global standards and be able to comply with the Zero Discharge of Hazardous Chemical (ZDHC) effluent standards by 2022.
- Social – we attach great importance to creating an inclusive workplace where diversity is valued. We will continue to support and have a positive impact in the communities we live and work in through all of our employees participating in community events. By 2022 we will have “Great Place to Work” or equivalent awards for all of our key sites.
- Living sustainably – to ensure growth, now and in the future, it is important that we use resources efficiently and explore innovative solutions. We will use more sustainable raw materials and reduce our waste – by 2022 we will deliver a reduction in waste of 25% and by 2024 100% of our premium polyester threads will be made from recycled materials.

Dividend

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

As a result of this established policy, and reflecting the financial performance in 2018, the Board is proposing a final dividend of 1.16c per share which, combined with the interim dividend of 0.50c per share, gives a total dividend for the year of 1.66c (2017 full year dividend: 1.44c per share), which represents a 15% increase on the previous year. Subject to approval at the forthcoming AGM, the final dividend will be paid on 28 May 2019 to ordinary shareholders on the register at 3 May 2019, with an ex-dividend date of 2 May 2019.

Outlook

We enter 2019 in a strong position, with continued positive momentum in our core Apparel and Footwear and hi-tech Performance Materials businesses. The exit of our non-core North American Crafts business will ensure complete focus on growing our remaining businesses organically and identifying further value-add bolt-on acquisitions.

Whilst we are cautious around the current macroeconomic uncertainties, based on our current assessment of business trends we remain confident in delivering another year of improving performance through effective execution of our strategy.

Financial Review

Adjusted operating profit from continuing operations increased 24% to \$195 million on a CER basis (2017: \$157 million) and operating margins were up 200 bps to 13.8% (2017: 11.8%). On a reported basis, operating profit (which is after exceptional and acquisition related items) decreased 5% to \$147 million (2017: \$154 million), primarily due to the initial exceptional reorganisation cost incurred in relation to the Connecting for Growth programme, the UK guaranteed minimum pension equalisation, and a further accrual for LPR legal costs.

Financials on a reported basis were impacted by the relative strength of the US Dollar compared to 2017, resulting in 4% growth in reported revenues year on year (vs a 6% growth on a CER basis), and 21% growth in adjusted operating profit (vs a 24% 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 year was the strengthening US Dollar against the Indian Rupee, Chinese Yuan, and Turkish Lira. If the reported 2018 results had been translated at exchange rates as at 31 December 2018 then Group revenue and adjusted operating profit would have been \$30 million and \$4 million lower respectively, and therefore we expect a further FX headwind to continue into 2019.

Adjusted earnings per share ('EPS') for the year increased 21% to 6.9 cents (2017: 5.7 cents) due to higher adjusted operating profits (21% reported growth), a 100bps reduction in underlying effective tax rate to 31% (excluding 2017 benefits from US tax reforms), and a \$6 million reduction in the IAS19 pension finance charge. These year-on-year improvements were offset by certain foreign exchange impacts, notably a \$1.6 million MTM foreign exchange losses on future hedging contracts (vs a \$1.3 million MTM gain in 2017), and an increase in interest costs.

On a reported basis, the Group generated an attributable profit from continuing operations of \$55 million compared to \$71 million in 2017. The reduction primarily being due to a \$35 million increase in exceptional and acquisition related items (net of tax) arising mainly from the initial Connecting for Growth programme reorganisation charges, the UK guaranteed minimum pension equalisation, and a further accrual for LPR legal costs (see later for details). Including the impact of discontinued operations in relation to North America Crafts, and the associated loss on disposal, reported attributable profit for the Group was \$39 million compared to \$81 million in 2017.

The Group delivered an adjusted free cash flow of \$96 million in 2018 (2017: \$76 million) which reflects the strong adjusted operating profit performance and controlled working capital, whilst sustaining the previously indicated higher levels of capital expenditure. As a percentage of revenues, net working capital as at 31 December 2018, is broadly in line with the same time last year at 9.5% (continuing operations).

Return on capital employed (ROCE) improved significantly on 2017 to 43%, due to higher adjusted operating profits from continuing operations and controlled working capital.

Non-operating results

Net finance costs in the year were \$24.4 million, marginally up from \$23.3 million in 2017. The key drivers of the increase in net finance costs in the period were higher interest on borrowings (\$1.1 million increase) due to a larger proportion of fixed rate debt (following the USPP issuance in December 2017) and increasing rates on the floating debt element, a \$1.6 million MTM foreign exchange loss (Dec 2017 \$1.3 million MTM foreign exchange gain), and a \$2 million increase in other finance costs (e.g. local FX impacts and interest on VAT balances (vs a credit in 2017)). These were offset by a \$5.6 million reduction in the pensions finance charge (as a result of the significant reduction in IAS19 pension deficit following the lump-sum cash settlement payments made in 2017).

The taxation charge for the year was \$49 million (2017: \$44 million) resulting in a reported tax rate of 40% (2017: 34%). Excluding exceptional and acquisition related items, the impact of IAS19 finance charges and the one-off impact of the US tax reform (in 2017), the underlying effective rate on pre-tax profits reduced year-on-year by 100bps to 31% (2017: 32%) which was driven by Advanced Pricing Agreement ("APA") negotiations with India and Indonesia and a reduction in the total unrelieved losses in the year compared to the prior year, partially offset by an unfavourable movement in profit mix.

Profit attributable to minority interests was \$19 million (2017: \$14 million) and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests).

Exceptional and acquisition related items

Net exceptional and acquisition related items before taxation were \$48 million in the period. These primarily relate to the exceptional reorganisation charge arising from the Connecting for Growth programme (\$23 million out of a total expected charge of \$30 million for the programme), the UK guaranteed minimum pension equalisation (\$10 million), and an increase to the legal provision costs in relation to the Lower Passaic River (LPR) environmental matter (\$8 million).

In addition, there was amortisation of intangible assets acquired in the recent acquisitions (\$2.3 million), contingent consideration in relation to these acquisitions (\$4.3 million), offset by an exceptional pension gain following the wind up of the three UK pension schemes (\$1.8 million). In 2017 net exceptional and acquisition related items before taxation totalled \$9.1 million.

UK Guaranteed Minimum Pension Equalisation

During the year an estimated past service charge of \$10 million has been recognised following the Lloyds Banking Group judgement in October 2018 and the requirement for all UK pension schemes to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions. This represents an increase of approximately 0.35% of pension scheme liabilities and is included in the Technical Provisions deficit of around £250 million resulting from the recent triennial valuation.

Lower Passaic River

In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that it 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.

On 30 June 2018, Occidental Chemical Corporation ('OCC'), the party that has been identified as being responsible for the most significant contamination in the river, filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC has since released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's belief that it is a de minimis party.

During the year ended 31 December 2018, an additional provision of \$8.0 million has been recorded as an exceptional item to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues. There has been no change to the level of provision for potential remediation costs, beyond the \$9.0 million provision made in 2015, which was based on the estimated share of CC's de minimis costs. As a result of this further provision for legal and professional fees the total LPR provision at 31 December 2018 was \$17.6 million (31 December 2017 \$11.3 million).

Following the sale of North America Crafts, which was announced on 22 January 2019 and subsequently completed on 20 February 2019, Coats retains the control and responsibility for the eventual outcome of the ongoing Lower Passaic River environmental matters. There is no change in the Group's overall position in relation to this matter as a result of the sale of North America Crafts.

See note 10 for further details.

Discontinued operations

In addition to the above exceptional and acquisition related items, and as referred to earlier, as a result of the disposal of the non-core North American Crafts business (completed on 20 February 2019) an exceptional loss on disposal of \$18.4 million has been incurred in 2018. This relates to a partial write down of operating assets to the level of sales proceeds, as well as the costs incurred to complete the transaction.

Investment

Capital expenditure in the year, in addition to ongoing maintenance requirements, related to new product development (e.g. on-going development of our three global innovation hubs, the first of which opened in North Carolina, US, in the second half of the year), process improvements, digital tools, capacity expansion, health and safety, and environmental spend. The latter includes projects such as effluent treatment plants (of which

one went live in our Honduras facility during the year) which enable a thread plant to recycle more process water, or even to operate with zero discharges. These help to ensure that Coats maintains its strong corporate responsibility credentials and ethical reputation in the industry as well as benefiting the local communities that we do business in. Total capital spend for the year amounted to \$48 million (1.3x depreciation and amortisation).

In order to continue to support our growth strategy and further reinforce our strong environmental compliance credentials we anticipate capital spend to be in the \$45-55 million range for 2019.

Corporate activity

On 4 December 2018, the Group announced that it had become a strategic investor in Twine Solutions, an Israeli based technology start-up that has developed a revolutionary digital thread dyeing system, having invested \$5 million for a 9.5% share in the company and a seat on the Board. Twine has created a proprietary digital thread dyeing system which combines the features of small-scale digital printing with the traditional dyeing process and enables thread to be produced, on demand, to any colour and length which aims to directly address the key needs of our customers: speed, innovation and sustainability.

On 20 December 2018, the Group agreed to acquire ThreadSol, a cloud-based digital application provider whose technology focuses on fabric usage optimisation in apparel manufacturing, for a cash consideration of up to \$12 million. The initial cash outflow is circa. \$5 million, with further payments of up to \$7 million over the period to 2022 based on certain performance criteria. The acquisition was subsequently completed on 12 February 2019.

ThreadSol's cloud-based digital applications provide an excellent fit with the existing Coats Global Services business. The complementary suite of software solutions for the apparel and footwear industries will enable brands, retailers and manufacturers to drive productivity gains, supply chain control and speed to market.

Cash flow

The Group generated \$96 million of adjusted free cash flow in 2018. This was a 26% increase on 2017 (\$76 million) due to the increase in adjusted operating profit, controlled net working capital, alongside continued capital expenditure (\$48 million) which was in excess of depreciation. This free cash flow measure is before annual pension recovery payments, acquisitions and dividends, and excludes exceptional items such as the Connecting for Growth exceptional reorganisation cost.

Adjusted EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) from continuing operations for the year was \$231 million (2017: \$198 million). Net working capital as a percentage of sales (continuing operations) remained broadly in line with 2017 at 9.5% as working capital continues to be effectively controlled. Interest paid was \$19 million, \$5 million higher than 2017 due to marginally higher interest on floating rate debt. Tax paid (continuing operations) was \$52 million, a \$5 million reduction on 2017, primarily due to the initial APA benefits in India and the timing of a US refund for tax overpaid in 2017.

On a non-adjusted basis, there was a free cash inflow of \$25 million in the year, compared to a \$330 million outflow in 2017. The improvement was primarily related to \$373 million of payments into the three UK defined benefit pension schemes in H1 2017 following settlement with their respective trustees (including \$348 million of upfront payments out of parent group cash) and the acquisition of Patrick Yarn Mill (\$20 million).

Net debt as at 31 December 2018 was \$223 million, \$19 million below 31 December 2017 (\$241 million), which reflects the \$25 million free cash inflow and \$6 million adverse foreign exchange. The \$25 million free cash inflow reflects adjusted free cash flow for the year of \$96 million offset by exceptional cash costs of \$27 million (primarily in relation to the Connecting for Growth programme), the strategic investment in Twine Solutions of \$5 million, shareholder dividends of \$21 million, and ongoing pension deficit recovery payments \$24 million.

Balance sheet

An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA, which improved to 1.0x adjusted EBITDA (from continuing operations) at 31 December 2018 (1.2x at 31 December 2017), and is at the lower end of the 1-2x stated target leverage range. The recent sale of the North America Crafts business further supports our strong balance sheet and will enable us to invest in our business organically, self-finance further bolt-on acquisitions, as well as meet our other key capital demands of funding our pension schemes and making returns to shareholders.

Pensions and other post-employment benefits

Following agreement with the UK Pension Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the Coats UK, Brunel and Staveley schemes (the Current Schemes) have been transferred to a single new scheme (named the Coats UK Pension Scheme). The consolidation of the three UK schemes into a single scheme is expected to result in future savings in administration expenses and efficiencies in investment management.

The net obligation for the Group's retirement and other post-employment defined benefit liabilities (UK and other group schemes), on an IAS19 financial reporting basis, was \$168 million as at 31 December 2018, which is broadly in line with the \$163 million at 31 December 2017.

The Group's UK defined benefit schemes, namely the Coats UK Pension Scheme, shows a \$109 million IAS19 deficit at 31 December 2018 (£85 million), which is in line with the deficit position at 31 December 2017 (\$107 million, £79 million). The movement in the period of \$3 million consisted of an exceptional charge of \$10 million in relation to the guaranteed minimum pension equalisation, employer contributions of \$16 million (excludes administrative expenses and levies), a \$14 million net actuarial loss (primarily a combination of a change in actuarial assumptions (e.g. reduced discount rate) offset by asset underperformance during the year), and some year-on-year movement in the sterling exchange rate.

Following consolidation of the UK schemes and completion of the 2018 actuarial valuation the Trustee of the Coats UK Pension Scheme currently hedges over 80% of interest rate and inflation-linked liabilities.

Following the disposal of North America Crafts, Coats retains the previously incurred pensions obligations from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of \$65 million at 31 December 2018 (recoverable surplus of \$48 million recognised on the Balance Sheet under accounting standards).

Coats Group plc

Consolidated income statement

For the year ended 31 December

				2018			2017 *
	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		1,414.7	-	1,414.7	1,356.1	-	1,356.1
Cost of sales		(901.9)	(4.4)	(906.3)	(849.7)	-	(849.7)
Gross profit		512.8	(4.4)	508.4	506.4	-	506.4
Distribution costs		(142.7)	(4.5)	(147.2)	(150.4)	-	(150.4)
Administrative expenses		(176.0)	(38.9)	(214.9)	(195.5)	(6.5)	(202.0)
Other operating income		0.8	-	0.8	0.1	-	0.1
Operating profit		194.9	(47.8)	147.1	160.6	(6.5)	154.1
Share of profits/(losses) of joint ventures		0.1	-	0.1	1.3	(2.6)	(1.3)
Investment income	4	1.7	-	1.7	2.1	-	2.1
Finance costs	5	(26.1)	-	(26.1)	(25.4)	-	(25.4)
Profit before taxation		170.6	(47.8)	122.8	138.6	(9.1)	129.5
Taxation	6	(53.8)	4.8	(49.0)	(44.6)	0.7	(43.9)
Profit from continuing operations		116.8	(43.0)	73.8	94.0	(8.4)	85.6
Discontinued operations							
Profit/(loss) from discontinued operations	13	2.8	(18.4)	(15.6)	9.5	-	9.5
Profit for the year		119.6	(61.4)	58.2	103.5	(8.4)	95.1
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		100.4	(61.2)	39.2	89.2	(8.4)	80.8
Non-controlling interests		19.2	(0.2)	19.0	14.3	-	14.3
		119.6	(61.4)	58.2	103.5	(8.4)	95.1
Earnings per share (cents)	7						
Continuing operations							
Basic				3.85			5.10
Diluted				3.78			5.00
Continuing and discontinued operations							
Basic				2.76			5.78
Diluted				2.70			5.67
Adjusted earnings per share	14	6.87					5.70

* Restated to reflect the results of the North America Crafts business as a discontinued operation and to reflect the impact of the adoption of IFRS 15 'Revenue from contracts with customers' (see note 1).

Coats Group plc

Consolidated statement of comprehensive income

Year ended 31 December	2018 Unaudited US\$m	2017 Audited US\$m
Profit for the year	58.2	95.1
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on retirement benefit schemes	(21.8)	145.2
Tax on items that will not be reclassified	1.2	1.0
	<u>(20.6)</u>	<u>146.2</u>
Items that may be reclassified subsequently to profit or loss:		
Losses on cash flow hedges arising during the year	(1.0)	(1.1)
Transferred to profit or loss on cash flow hedges	(0.6)	0.2
Exchange differences on translation of foreign operations	(20.5)	(6.1)
	<u>(22.1)</u>	<u>(7.0)</u>
Other comprehensive income and expense for the year	<u>(42.7)</u>	<u>139.2</u>
Net comprehensive income and expense for the year	<u>15.5</u>	<u>234.3</u>
Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	<u>(2.7)</u>	219.9
Non-controlling interests	<u>18.2</u>	14.4
	<u>15.5</u>	<u>234.3</u>

Coats Group plc

Consolidated statement of financial position

	Notes	31 December 2018 Unaudited US\$m	31 December 2017 * Audited US\$m
Non-current assets			
Intangible assets		284.2	292.9
Property, plant and equipment		282.2	297.3
Investments in joint ventures		10.6	12.0
Other equity investments		6.1	1.2
Deferred tax assets		19.2	24.6
Pension surpluses		42.6	57.9
Trade and other receivables		21.4	21.5
		<u>666.3</u>	<u>707.4</u>
Current assets			
Inventories		185.4	232.2
Trade and other receivables		253.8	268.9
Other investments		0.6	0.2
Pension surpluses		6.1	6.9
Cash and cash equivalents	11(f)	135.7	118.4
Assets of disposal group and non-current assets classified as held for sale		51.4	0.2
		<u>633.0</u>	<u>626.8</u>
Total assets		<u>1,299.3</u>	<u>1,334.2</u>
Current liabilities			
Trade and other payables		(302.7)	(330.4)
Current income tax liabilities		(15.5)	(8.7)
Bank overdrafts and other borrowings		(20.3)	(1.7)
Retirement benefit obligations:			
- Funded schemes		(16.0)	(16.9)
- Unfunded schemes		(6.0)	(7.4)
Provisions		(16.3)	(18.3)
Liabilities of disposal group classified as held for sale		(17.9)	-
		<u>(394.7)</u>	<u>(383.4)</u>
Net current assets		<u>238.3</u>	<u>243.4</u>
Non-current liabilities			
Trade and other payables		(23.1)	(27.2)
Deferred tax liabilities		(10.5)	(17.9)
Borrowings		(338.1)	(358.2)
Retirement benefit obligations:			
- Funded schemes		(99.5)	(101.1)
- Unfunded schemes		(95.5)	(102.6)
Provisions		(39.0)	(33.5)
		<u>(605.7)</u>	<u>(640.5)</u>
Total liabilities		<u>(1,000.4)</u>	<u>(1,023.9)</u>
Net assets		<u>298.9</u>	<u>310.3</u>
Equity			
Share capital	8	88.5	87.5
Share premium account		10.4	7.7
Own shares	8	(6.8)	(7.7)
Translation reserve		(68.5)	(48.8)
Capital reduction reserve		59.8	59.8
Other reserves		244.2	245.8
Retained loss		(56.7)	(58.6)
EQUITY SHAREHOLDERS' FUNDS		<u>270.9</u>	<u>285.7</u>
Non-controlling interests		28.0	24.6
Total equity		<u>298.9</u>	<u>310.3</u>

* Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 12).

Coats Group plc

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital US\$m	Share premium account US\$m	Own shares US\$m	Translation reserve US\$m	Capital reduction reserve US\$m	Other reserves US\$m	Retained loss US\$m	Total US\$m	Non-controlling interests US\$m	Total equity US\$m
Audited										
Balance as at 1 January 2017	127.0	11.6	(10.5)	(121.1)	85.2	250.9	(274.6)	68.5	22.5	91.0
Change in functional currency (see note 1)	(39.9)	(10.8)	1.8	78.5	(25.4)	(4.2)	-	-	-	-
Net comprehensive income and expense for the year	-	-	-	(6.2)	-	(0.9)	227.0	219.9	14.4	234.3
Dividends	-	-	-	-	-	-	(17.8)	(17.8)	(12.3)	(30.1)
Issue of ordinary shares	0.4	2.6	-	-	-	-	-	3.0	-	3.0
Movement in own shares	-	4.3	1.0	-	-	-	(5.2)	0.1	-	0.1
Share based payments	-	-	-	-	-	-	6.4	6.4	-	6.4
Deferred tax on share schemes	-	-	-	-	-	-	5.6	5.6	-	5.6
Balance as at 31 December 2017	87.5	7.7	(7.7)	(48.8)	59.8	245.8	(58.6)	285.7	24.6	310.3
Unaudited										
Net comprehensive income and expense for the year	-	-	-	(19.7)	-	(1.6)	18.6	(2.7)	18.2	15.5
Dividends	-	-	-	-	-	-	(21.1)	(21.1)	(14.8)	(35.9)
Issue of ordinary shares	1.0	2.7	-	-	-	-	(0.7)	3.0	-	3.0
Movement in own shares	-	-	0.9	-	-	-	-	0.9	-	0.9
Share based payments	-	-	-	-	-	-	7.4	7.4	-	7.4
Deferred tax on share schemes	-	-	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Balance as at 31 December 2018	88.5	10.4	(6.8)	(68.5)	59.8	244.2	(56.7)	270.9	28.0	298.9

Coats Group plc

Consolidated cash flow statement

For the year ended 31 December		2018	2017
		Unaudited	Audited
		US\$m	US\$m
	Note		
Cash inflow/(outflow) from operating activities			
Net cash inflow/(outflow) from operations	11 (a)	171.1	(157.4)
Interest paid		(19.1)	(13.7)
Taxation paid	11 (b)	(50.1)	(60.5)
Net cash generated by/(absorbed in) operating activities		101.9	(231.6)
Cash outflow from investing activities			
Investment income	11 (c)	1.6	1.3
Net capital expenditure and financial investment	11 (d)	(45.6)	(49.7)
Acquisitions and disposals	11 (e)	(0.1)	(23.1)
Net cash absorbed in investing activities		(44.1)	(71.5)
Cash outflow from financing activities			
Receipts from exercise of share options		3.0	3.0
Dividends paid to equity shareholders		(21.1)	(17.6)
Dividends paid to non-controlling interests		(14.8)	(12.3)
Net decrease in debt and finance leasing		(20.4)	(41.1)
Net cash absorbed in financing activities		(53.3)	(68.0)
Net increase/(decrease) in cash and cash equivalents			
		4.5	(371.1)
Net cash and cash equivalents at beginning of the year		116.8	470.3
Foreign exchange (losses)/gains on cash and cash equivalents		(5.6)	17.6
Net cash and cash equivalents at end of the year	11 (f)	115.7	116.8
Reconciliation of net cash flow to movement in net debt			
Net increase/(decrease) in cash and cash equivalents		4.5	(371.1)
Net decrease in debt and lease financing		20.4	41.1
Change in net debt resulting from cash flows (Free cash flow)		24.9	(330.0)
Other non-cash movements		(0.7)	(5.0)
Foreign exchange (losses)/gains		(5.4)	15.3
Decrease/(increase) in net debt		18.8	(319.7)
Net (debt)/cash at start of year		(241.5)	78.2
Net debt at end of year	11 (f)	(222.7)	(241.5)

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018

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 Standards ('IFRS') as adopted by the European Union, and complies with the disclosure requirements of the Listing Rules of the UK Financial Services Authority. The accounting policies adopted by the Group 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 2018 and 2017. The financial information for the year ended 31 December 2017 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 2018 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 2019.

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 2017 other than the following new and revised standards that were effective as of 1 January 2018:

- IFRS 9 ('Financial instruments');
- IFRS 15 ('Revenue from contracts with customers');
- Amendments to IFRS 2 ('Classification and measurement of share based payment transactions');
- Amendments to IFRS 4 ('Interaction of IFRS 4 and IFRS 9');
- Amendments to IAS 40 ('Transfers of property to or from, investment property'); and
- Annual Improvements to IFRS's 2014-2016 cycle.

The adoption of these standards has not had a material impact on the financial statements of the Group. Additional details on the adoption of IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contract with customers' are given below:

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and concerns the classification, measurement and derecognition of financial assets and financial liabilities. The new standard introduces the expected credit loss model for the assessment of impairment of financial assets, introduces new classification and measurement rules for financial assets affecting the Group's other investments previously classified as available for sale and changes the hedge accounting requirements.

An accounting policy choice is available with regards to applying the new hedge accounting requirements or retaining the requirements of IAS 39. The Group has elected to retain the requirements of IAS 39.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit & loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivable and available for sale. As such the Group's other investments previously classified as available-for-sale under IAS 39 and held at fair value have been designated on transition as FVOCI, after which the Group will record their fair value movements in other comprehensive income.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

1. Basis of preparation (continued)

IFRS 9 'Financial Instruments' (continued)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and therefore there has been no impact on the Group's accounting policies relating to financial liabilities.

The Group has adopted the simplified approach to provide for losses on receivables within the scope of IFRS 9. Due to the quality and short-term nature of the Group's trade receivables losses experienced are not significant. Therefore, no material impact to the primary financial statements has arisen on the adoption of IFRS 9 and the Group has not restated prior periods on adoption of IFRS 9.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 replaces IAS 18 Revenue and related interpretations, introducing a single, principles-based approach to the recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosures.

The Group completed a review of the requirements of IFRS 15 against existing policy and practice for both timing and amount of revenue recognised, in particular considering the accounting policies adopted for the Global services business, where contracts include several performance obligations, and variable consideration.

The review concluded that timing of revenue recognition was materially consistent with the requirements of IFRS 15. For the majority of the Group's contracts, the performance obligation is the delivery of goods, which under IFRS 15 would be recognised at a single point of time, consistent with the current accounting treatment under IAS 18. The Group's accounting policies for services revenue already allocated revenue to performance obligations on a basis consistent with IFRS 15 and no change in policy was required.

As part of the review, the Group identified rebates and discounts under certain arrangements which were recorded as operating costs under IAS 18 which under IFRS 15 are treated as a reduction of revenue.

The Group previously expected that it would adopt IFRS 15 using the modified retrospective approach. After careful consideration the Group has adopted IFRS 15 using the full retrospective approach and comparative amounts for the year ended 31 December 2017 have been restated.

The rebates and discounts outlined above that are treated as reductions of revenue from continuing operations for the year ended 31 December 2018, rather than reported as operating costs, amounted to \$11.7 million (2017: \$11.9 million). Amounts for the year ended 31 December 2017 have been restated as set out below:

IFRS 15 restatement impact on continuing operations for the year ended 31 December 2017	As reported US\$m	Adjustment US\$m	As restated US\$m
Revenue	1,368.0	(11.9)	1,356.1
Gross profit	518.3	(11.9)	506.4
Distribution costs	(162.3)	11.9	(150.4)

There have been no changes in Group operating profit, total equity or cash flows as a result of the adoption of IFRS 15.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

1. Basis of preparation (continued)

Discontinued operations and disposal group held for sale

In January 2019 the Group announced the agreement to sell the North America Crafts business to Spinrite Acquisition Corp. The North America Crafts business has been classified as held for sale at 31 December 2018 and its results presented as a discontinued operation. Prior years amounts in the consolidated income statement have also been restated to reclassify the results of North America Crafts from continuing operations to discontinued operations. The sale was completed on 20 February 2019, the date which control passed to the acquirer. Note 13 provides further details on the results of North America Crafts.

Functional currency

The functional currency of Coats Group plc continued to be United States dollars ('USD') during the year ended 31 December 2018. In the prior year following the UK pensions settlement, the functional currency of Coats Group plc was changed from Great Britain pounds sterling to USD, effective 1 March 2017.

Prior to the UK pensions settlement in February 2017, Coats Group plc and the parent group were considered to operate autonomously from the Coats operating business. Cash within the parent group was primarily denominated in Great Britain Pounds, held separately from the Coats operating business and represented a significant proportion of the Group's value at that time. Following the UK pensions settlement and payment of upfront pension contributions the parent group became largely dormant with minimal cash maintained. In addition dividend payments recommenced to external shareholders having been suspended during the period of the investigation by the UK Pension Regulator. Following the settlement payments made into the UK pension schemes the functional currency of Coats Group plc was reassessed and changed from Great Britain pounds sterling to USD, effective 1 March 2017. The presentation currency of the Group is USD.

Going concern

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

Principal exchange rates

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

		2018	2017
Average	Sterling	0.75	0.78
	Euro	0.85	0.89
	Brazilian Real	3.65	3.19
	Indian Rupee	68.41	65.09
Period end	Sterling	0.78	0.74
	Euro	0.87	0.83
	Brazilian Real	3.87	3.31
	Indian Rupee	69.77	63.87

2. Operating segments

Operating segments are components of the Group's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Coats Group plc Board). Reportable segments for the year ended 31 December 2018 comprised the continuing industrial thread business and the discontinued North America Crafts business which was sold in February 2019. Previously the Group had two reportable segments being Industrial and Crafts. The smaller Latin America Crafts business has been reported within Industrial Continuing Operations following its integration with the wider Latin America business. The results of the operating segments are set out below. The change has been applied retrospectively with comparative information restated on a consistent basis. Following the sale of the North America Crafts business, future segmental reporting is under review and is anticipated to be reflected in the H1 2019 financial results.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

2. Operating segments (continued)

Segment revenue and results

Year ended 31 December 2018:

Unaudited	Industrial Continuing Operations US\$m	North America Crafts Discontinued Operations US\$m	Total US\$m
Revenue	1,414.7	121.8	1,536.5
Segment profit	201.9	2.7	204.6
UK pension scheme administrative expenses	(7.0)		
Operating profit before exceptional and acquisition related items	194.9		
Exceptional and acquisition related items (note 3)	(47.8)		
Operating profit	147.1		
Share of profits of joint ventures	0.1		
Investment income	1.7		
Finance costs	(26.1)		
Profit before taxation from continuing operations	122.8		

The elimination of intersegment revenue from Industrial Continuing Operations to North America Crafts Discontinued Operations of \$5.7 million for the year ended 31 December 2018 (2017: \$6.8 million) is presented within the North America Crafts Discontinued Operations segment. Excluding these amounts revenue for the North America Crafts Discontinued Operations segment for the year ended 31 December 2018 was \$127.5 million (2017: \$149.1 million).

Year ended 31 December 2017 (Restated):	Industrial Continuing Operations US\$m	North America Crafts Discontinued Operations US\$m	Total US\$m
Audited			
Revenue	1,356.1	142.3	1,498.4
Segment profit	166.9	13.1	180.0
UK pension scheme administrative expenses	(6.3)		
Operating profit before exceptional and acquisition related items	160.6		
Exceptional and acquisition related items (note 3)	(6.5)		
Operating profit	154.1		
Share of losses of joint ventures	(1.3)		
Investment income	2.1		
Finance costs	(25.4)		
Profit before taxation from continuing operations	129.5		

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

3. Exceptional and acquisition related items

The Group's consolidated income statement format is presented before and after exceptional and acquisition related items. Adjusted results exclude exceptional and acquisition related items to reflect the underlying performance of the business and to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 14.

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

	2018	2017
	Unaudited	Audited
	US\$m	US\$m
Exceptional items:		
Connecting for Growth programme reorganisation costs:		
- Cost of sales	4.4	-
- Distribution costs	4.5	-
- Administrative expenses	13.9	-
	22.8	-
<i>Administrative expenses:</i>		
US environmental costs	8.0	-
UK pension scheme consolidation	(0.5)	-
UK Guaranteed Minimum Pension Equalisation	10.2	-
	40.5	-
Exceptional items charged to operating profit from continuing operations	40.5	-

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

US environmental costs – In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. An additional provision of \$8.0 million has been made during the year ended 31 December 2018 to cover legal and professional fees in respect of this matter (see note 10).

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

3. Exceptional and acquisition related items (continued)

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

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

Exceptional items: Joint venture – Share of losses of joint ventures for the year ended 31 December 2018 is after exceptional costs of \$nil (2017: \$2.6 million) relating to the sale and closure of the business of Australia Country Spinners, a joint venture in Australia.

Exceptional items: Discontinued operations – During the year ended 31 December 2018 exceptional charges in relation to discontinued operations were \$18.4 million (2017: \$nil). See note 13 for further details.

Acquisition related items

Acquisition related items are set out below:

	2018 Unaudited US\$m	2017 Audited US\$m
Acquisition related items:		
<i>Administrative expenses:</i>		
Contingent consideration	4.3	4.0
Acquisition transaction costs	0.7	0.4
Amortisation of acquired intangible assets	2.3	2.1
Total acquisition related items before taxation	7.3	6.5

The Group has made acquisitions with earn outs to allow part of the consideration to be based on the future performance of the businesses acquired and to lock in key management. Where consideration paid or contingent consideration payable in the future is employment linked, it is treated as an expense and part of statutory results. However, all consideration of this type is excluded from adjusted operating profit and adjusted earnings per share, as in management's view, these items are part of the capital transaction.

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

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

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

4. Investment income

	2018 Unaudited US\$m	2017 Audited US\$m
Income from investments	0.1	0.3
Other interest receivable and similar income	1.6	1.8
	<u>1.7</u>	<u>2.1</u>

5. Finance costs

	2018 Unaudited US\$m	Restated 2017 Audited US\$m
Interest on bank and other borrowings	15.9	14.8
Net interest on pension scheme assets and liabilities	3.8	9.4
Other finance costs including unrealised gains and losses on foreign exchange contracts	6.4	1.2
	<u>26.1</u>	<u>25.4</u>

6. Taxation

	2018 Unaudited US\$m	Restated 2017 Audited US\$m
UK taxation based on profit for the year:		
Corporation tax at 19% (2017: 19.25%)	-	7.1
Double taxation relief	-	(7.1)
	<u>-</u>	<u>-</u>
Overseas taxation:		
Current taxation	53.6	51.8
Deferred taxation	(4.3)	(12.5)
	<u>49.3</u>	<u>39.3</u>
Prior year adjustments:		
Current taxation	(0.6)	4.3
Deferred taxation	0.3	0.3
	<u>(0.3)</u>	<u>4.6</u>
	<u>49.0</u>	<u>43.9</u>

In December 2017 the US Government introduced tax reform measures in the Tax Cuts & Jobs Act. As a result of the provisions of this Act, the Group recognised a one-off non-cash tax credit of \$3.0 million in the consolidated income statement for the year ended 31 December 2017 as a result of the revaluation of the net US deferred tax liabilities using the new headline Corporate Income Tax rate of 21% effective from 1 January 2018. Of this \$3.0 million credit, \$2.1 million relates to continuing operations and \$0.9 million relates to discontinued operations. A further tax credit of \$2.9 million for the year ended 31 December 2017 was taken directly to the consolidated statement of comprehensive income in relation to the revaluation of deferred tax liabilities in respect of US defined benefit pension arrangements.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

7. Earnings per share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of Ordinary Shares in issue during the year, excluding shares held by the Employee Benefit Trust but including shares under share incentive schemes which are not contingently issuable.

The calculation of basic earnings per ordinary share from continuing and discontinued operations is based on the profit attributable to equity shareholders. The weighted average number of ordinary shares used for the calculation of basic earnings per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential Ordinary Shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

	2018 Unaudited US\$m	Restated 2017 Audited US\$m
Profit from continuing operations attributable to equity shareholders	54.8	71.3
Profit from continuing and discontinued operations attributable to equity shareholders	39.2	80.8
	2018 Unaudited Number of shares m	2017 Audited Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	1,420.1	1,399.2
Adjustment for share options and LTIP awards	27.3	27.4
Weighted average number of ordinary shares in issue for diluted earnings per share	1,447.4	1,426.6
	2018 Unaudited cents	Restated 2017 Audited cents
Continuing operations:		
Basic earnings per ordinary share	3.85	5.10
Diluted earnings per ordinary share	3.78	5.00
Continuing and discontinued operations:		
Basic earnings per ordinary share	2.76	5.78
Diluted earnings per ordinary share	2.70	5.67

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

8. Issued share capital

During the year ended 31 December 2018 the Company issued 14,191,384 Ordinary shares of 5p each (2017: 5,688,366) following the exercise of awards under the Group's share based incentive plans as set out below:

	Number of Shares	US\$m
At 1 January 2018	1,413,300,648	87.5
Issue of ordinary shares	14,191,384	1.0
At 31 December 2018	1,427,492,032	88.5

The own shares reserve of \$6.8 million at 31 December 2018 (2017: \$7.7 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 2018 was 17,165,314 (2017: 19,025,392).

9. Dividends

	2018 Unaudited US\$m	2017 Audited US\$m
2018 interim dividend paid – 0.50 cents per share	7.0	-
2017 final dividend paid – 1.00 cents per share	14.1	-
2017 interim dividend paid – 0.44 cents per share	-	6.1
2016 final dividend paid – 0.84 cents per share	-	11.7
	21.1	17.8

The proposed final dividend of 1.16 cents per ordinary share for the year ended 31 December 2018 is not recognised as a liability in the consolidated statement of financial position in line with the requirements of IAS 10 Events after the Reporting Period and, subject to shareholder approval, will be paid on 28 May 2019 to shareholders on the register at the close of business on 3 May 2019.

10. US environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Over 100 PRPs have been identified by EPA. Approximately 50 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

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

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR at an estimated cost of \$1.38 billion on a net present value basis. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider a remedial alternative proposed by the CPG for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

10. US environmental matters (continued)

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower 8 miles of the LPR. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC that covered the LPR, has been granted Chapter 11 bankruptcy protection, but OCC remains responsible for its remedial obligations even in the absence of Maxus' indemnity. The approved bankruptcy plan also created a liquidating trust to pursue potential claims against Maxus' parent entity, YPF SA, and potentially others, which could result in additional funding for the LPR remedy. While the ultimate costs of the remedial design and the final remedy are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties has not yet been determined.

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. EPA has invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the upcoming allocation, CC intends to present factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis party. The allocation process is expected to be completed by the end of 2019, although that date may be extended.

On 30 June 2018, OCC filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's belief that it is a de minimis party.

In 2015, a provision of \$9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of \$6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. During the year ended 31 December 2018, an additional provision of \$8.0 million has been recorded as an exceptional item (see note 3) to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 31 December 2018, \$6.2 million of this provision had been utilised. The remaining provision at 31 December 2018, taking into account insurance reimbursement, was \$17.6 million. The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

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

Following the sale of the North America Crafts business, including CC, announced on 22 January 2019, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters, including related insurance reimbursements.

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

11. Notes to the consolidated cash flow statement

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

	2018 Unaudited US\$m	2017 Audited US\$m
Operating profit	147.1	154.1
Depreciation	29.5	28.4
Amortisation of intangible assets	6.9	9.3
Exceptional and acquisition related items (see note 3)	47.8	6.5
Pre-exceptional operating profit before depreciation and amortisation (Adjusted EBITDA)	231.3	198.3
Increase in inventories	(6.8)	(13.5)
Increase in debtors	(18.5)	(11.3)
Increase in creditors	8.8	20.9
Provision movements ¹	(49.5)	(374.4)
Foreign exchange and other non-cash movements	5.6	6.2
Discontinued operations	0.2	16.4
Net cash inflow/(outflow) from operations	171.1	(157.4)

¹ Includes cash flows in respect of exceptional and acquisition related items (see note 14(e)).

b) Taxation paid

	2018 Unaudited US\$m	2017 Audited US\$m
Overseas tax paid	(51.4)	(55.9)
Discontinued operations	1.3	(4.6)
	(50.1)	(60.5)

c) Investment income

	2018 Unaudited US\$m	2017 Audited US\$m
Interest and other income	-	0.2
Dividends received from joint ventures	1.6	1.1
	1.6	1.3

Coats Group plc

Notes to the consolidated financial information for the year ended 31 December 2018 (continued)

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

d) Capital expenditure and financial investment

	2018 Unaudited US\$m	2017 Audited US\$m
Acquisition of property, plant and equipment and intangible assets	(47.6)	(48.5)
Acquisition of other equity investments	(5.4)	-
Disposal of property, plant and equipment	3.2	0.4
Discontinued operations	4.2	(1.6)
	(45.6)	(49.7)

e) Acquisitions and disposals

	2018 Unaudited US\$m	2017 Audited US\$m
Acquisition of businesses	(1.8)	(19.9)
Investment in joint venture	-	(3.2)
Discontinued operations	1.7	-
	(0.1)	(23.1)

f) Summary of net debt

	2018 Unaudited US\$m	2017 Audited US\$m
Total cash and cash equivalents	135.7	118.4
Bank overdrafts	(20.0)	(1.6)
Net cash and cash equivalents	115.7	116.8
Other borrowings	(338.4)	(358.3)
Total net debt	(222.7)	(241.5)

12. Acquisitions

In December 2017, the Group acquired 100% of the voting equity of Patrick Yarn Mill Inc., a company based in North Carolina, US that manufactures high-performance engineered yarns. It specialises in cut-resistant and flame retardant yarns. It also produces yarns from recycled fibres marketed under its earthspun® trademarks and with its large solar installation promotes its earth friendly yarns as 'Spun by the Sun'. Patrick Yarn Mill's unique spinning competencies in engineered performance yarns offer an opportunity to expand Coats' existing Performance Materials portfolio as well as to extend its innovation capability. Coats will support Patrick Yarn Mill's expansion into high-growth markets by leveraging Coats' unrivalled geographic footprint, breadth of global customer relationships and strong corporate brand.

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

12. Acquisitions (continued)

The initial consideration transferred on the date of acquisition was \$21.0 million and net of cash and cash equivalents acquired was \$19.7 million.

Additional consideration of approximately \$1.4 million was paid in April 2018 following finalisation of certain completion consideration adjustments based on the amount of cash and net working capital at the acquisition date.

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. Up to \$4.0 million is payable over a service period of three years to 31 December 2020. The charge to the income statement for the year ended 31 December 2018 was \$2.3 million (2017: \$0.2 million).

Fair values of the identifiable assets and liabilities of Patrick Yarn Mill as at the date of acquisition were as follows:

	Fair value recognised on acquisition US\$m
Assets	
Intangible assets (excluding computer software)	1.3
Computer software	0.1
Property, plant and equipment	11.9
Inventories	6.7
Trade and other receivables	4.9
Cash and cash equivalents	1.3
	<u>26.2</u>
Liabilities	
Trade and other payables	(2.5)
Deferred tax liabilities	(3.6)
Total identifiable net assets acquired at fair value	<u>20.1</u>
Goodwill recognised on acquisition	2.3
	<u>22.4</u>
Total consideration	<u>22.4</u>

In accounting for the acquisition, adjustments were made to the book values of the net assets of the companies acquired to reflect their fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies have been aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired was completed during the year ended 31 December 2018 within 12 months of the acquisition date.

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

As part of the assessment of the fair value of the net assets acquired, an uplift of \$4.6 million was made to the book values of land and buildings during the year ended 31 December 2018. Adjustments to increase trade and other payables by \$0.4 million and deferred tax liabilities by \$3.6 million were also made. The excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired is represented by brands and trade names of \$0.6 million and know how related intangibles of \$0.7 million, with residual goodwill now arising of \$2.3 million compared to \$4.6 million previously recognised. As a result, comparative amounts as of 31 December 2017 in the consolidated statement of financial position have been restated, with no change in net assets at 31 December 2017.

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

12. Acquisitions (continued)

The goodwill represents:

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

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

13. Sale of North America Crafts

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

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

a) Discontinued operations

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

	2018 Unaudited US\$m	2017 Audited US\$m
Revenue	128.3	149.9
Cost of sales	(88.5)	(90.8)
Gross profit	39.8	59.1
Distribution costs	(29.2)	(30.9)
Administrative expenses	(11.5)	(15.1)
Other operating income	3.6	-
Operating profit	2.7	13.1
Finance costs (net)	-	0.3
Profit before tax	2.7	13.4
Tax on profit	0.1	(3.9)
Profit from discontinued operations	2.8	9.5
Loss arising on measurement to fair value less costs to sell (see note 13 (b))	(18.4)	-
(Loss)/profit from discontinued operations	(15.6)	9.5

Revenue in the table above includes inter-company sales of \$0.8 million for the year ended 31 December 2018 (2017: \$0.8 million). External revenue of the North America Crafts business for the year ended 31 December 2018 was \$127.5 million (2017: \$149.1 million).

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

13. Sale of North America Crafts (continued)

a) Discontinued operations (continued)

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

	2018 Unaudited cents	2017 Audited cents
(Loss)/profit per ordinary share from discontinued operations:		
Basic (loss)/earnings per ordinary share	(1.09)	0.68
Diluted (loss)/earnings per ordinary share	(1.08)	0.67

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

	2018 Unaudited US\$m	2017 Audited US\$m
Net cash inflow from operating activities	1.5	11.8
Net cash inflow/(outflow) from investing activities	5.9	(1.6)
Net cash flows from discontinued operations	7.4	10.2

Net cash outflow from operating activities for the year ended 31 December 2018 includes an outflow of \$0.1 million (2017: \$0.6 million) in respect of a business discontinued in previous years.

b) Assets and liabilities held for sale

The assets and liabilities of North America Crafts have been classified as a disposal group held for sale. Assets and liabilities classified as held for sale consist of the following:

	2018 Unaudited US\$m	2017 Audited US\$m
Assets of the disposal group classified as held for sale	50.6	-
Other non-current assets classified as held for sale ¹	0.8	0.2
Total assets of the disposal group and non-current assets classified as held for sale	51.4	0.2
Liabilities of the disposal group classified as held for sale	(17.9)	-
Total net assets classified as held for sale	33.5	0.2

¹ The other non-current assets held for sale of \$0.8 million (31 December 2017: \$0.2 million) are property, plant and equipment that do not relate to North America Crafts.

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

13. Sale of North America Crafts (continued)

b) Assets and liabilities held for sale (continued)

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

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

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

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

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

In addition Coats retains the previously incurred pensions obligations and post-retirement medical liabilities from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of \$64.7 million at 31 December 2018 with a recoverable surplus of \$48.1 million recognised on the balance sheet. As a consequence of the disposal it is anticipated that during the year ended 31 December 2019 the recoverable surplus recognised on the balance sheet will reduce by approximately \$11 million (although there will be no change in the gross surplus in the scheme) and a curtailment gain will arise on the post-retirement medical liabilities.

14. Alternative performance measures

This preliminary announcement contains both statutory measures and alternative performance measures which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the Group's business is managed and measured on a day-to-day basis.

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

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting Standards ('IFRS') as adopted by the European Union and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies.

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

14. Alternative performance measures (continued)

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

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

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

- removing from the year of acquisition, their revenue and operating profit; and
- in the following year, removing the revenue and operating profit for the number of months equivalent to the pre-acquisition period in the prior year.

The effects of currency changes are removed through restating prior year revenue and operating profit at current year exchange rates.

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

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

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

	2018 Unaudited US\$m	Restated 2017 Audited US\$m	% Growth
Revenue from continuing operations	1,414.7	1,356.1	4%
Constant currency adjustment	-	(27.2)	
Revenue on a CER basis	1,414.7	1,328.9	6%
Revenue from acquisitions	(41.0)	-	
Organic revenue on a CER basis	1,373.7	1,328.9	3%

	2018 Unaudited US\$m	Restated 2017 Audited US\$m	% Growth
Operating profit from continuing operations ¹	147.1	154.1	(5)%
Exceptional and acquisition related items (note 3)	47.8	6.5	
Adjusted operating profit from continuing operations	194.9	160.6	21%
Constant currency adjustment	-	(3.4)	
Adjusted operating profit on a CER basis	194.9	157.2	24%
Operating profit from acquisitions	(2.1)	-	
Organic adjusted operating profit on a CER basis	192.8	157.2	23%

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

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

14. Alternative performance measures (continued)

b) Adjusted EBITDA

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

Operating profit from continuing operations before exceptional and acquisition related items and before depreciation and amortisation (Adjusted EBITDA) for the year ended 31 December 2018 was \$231.3 million (2017: \$198.3 million).

Net debt at 31 December 2018 was \$222.7 million (2017: \$241.5 million).

This gives a leverage ratio of net debt to Adjusted EBITDA at 31 December 2018 of 1.0 (2017: 1.2).

Refer to notes 11(a) and 11(f) for definitions and calculations of Adjusted EBITDA and net debt.

c) Underlying effective tax rate

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

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

	2018 Unaudited US\$m	Restated 2017 Audited US\$m
Profit before taxation from continuing operations	122.8	129.5
Exceptional and acquisition related items (note 3)	47.8	9.1
Net interest on pension scheme assets and liabilities	3.8	9.4
Underlying profit before taxation from continuing operations	174.4	148.0
Taxation charge from continuing operations	49.0	43.9
Tax credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	4.9	0.8
Underlying tax charge from continuing operations	53.9	44.7
Underlying effective tax rate	31%	30%

The taxation charge from continuing operations for the year ended 31 December 2017 includes a one-off non-cash tax credit of \$2.1 million as a result of the revaluation of the net US deferred tax liabilities following the tax reform measures introduced by the US Government in the Tax Cuts & Jobs Act. The Group's underlying effective tax rate for the year ended 31 December 2017 excluding this one-off impact was 32%.

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

14. Alternative performance measures (continued)

d) Adjusted earnings per share

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

Adjusted earnings per share growth measures the underlying progression of the benefits generated for shareholders.

	2018	Restated
	Unaudited	2017
	US\$m	Audited
		US\$m
Profit from continuing operations	73.8	85.6
Non-controlling interests	(19.0)	(14.3)
Profit from continuing operations attributable to equity shareholders	54.8	71.3
Exceptional and acquisition related items net of non-controlling interests (note 3)	47.6	9.1
Tax credit in respect of exceptional and acquisition related items	(4.8)	(0.7)
Adjusted profit from continuing operations	97.6	79.7
Weighted average number of Ordinary Shares	1,420,069,352	1,399,209,804
Adjusted earnings per share (cents)	6.87	5.70
Adjusted earnings per share (growth %)	21%	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2018 is 1,420,069,352 (2017: 1,399,209,804), 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 2018 (continued)

14. Alternative performance measures (continued)

e) Adjusted free cash flow

Net cash generated by/(absorbed in) operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below. Adjusted free cash flow measures the Group's underlying cash generation that is available to service capital demands.

	2018 Unaudited US\$m	Restated 2017 Audited US\$m
Change in net debt resulting from cash flows (free cash flow)	24.9	(330.0)
Acquisition of business (note 11(e))	1.8	19.9
Acquisition of other equity investment	5.0	-
Net cash flows from discontinued operations (note 13)	(7.4)	(10.2)
Net cash outflow in respect of exceptional reorganisation costs	20.7	0.2
UK Pensions Regulator ('tPR') investigation and UK pension consolidation costs	2.2	3.5
Payments to UK pension schemes	24.0	373.2
Net cash flows in respect of other exceptional and acquisition related items	7.5	5.8
Receipts from exercise of share options	(3.0)	(3.0)
Dividends paid to equity shareholders	21.1	17.6
Tax inflow in respect of adjusted cash flow items	(0.6)	(0.6)
Adjusted free cash flow	96.2	76.4

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

14. Alternative performance measures (continued)

f) Return on capital employed

Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items divided by period end capital employed as set out below.

ROCE measures the ability of the Group's assets to deliver returns.

	2018 Unaudited US\$m	Restated 2017 Audited US\$m
Operating profit from continuing operations before exceptional and acquisition related items ¹	194.9	160.6
Non-current assets		
Acquired intangible assets	40.0	44.1
Property, plant and equipment	282.2	284.2
Trade and other receivables	21.4	20.1
Current assets		
Inventories	185.4	190.6
Trade and other receivables	253.8	255.5
Current liabilities		
Trade and other payables	(302.7)	(313.5)
Non-current liabilities		
Trade and other payables	(23.1)	(27.3)
Capital employed	457.0	453.7
ROCE	43%	35%

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

The amounts shown above for non-current assets, current assets, current liabilities and non-current liabilities at 31 December 2017 have been adjusted to exclude the discontinued North America Crafts business.

15. Post balance sheet events

On 12 February 2019 the Group completed the acquisition of ThreadSol a cloud-based digital applications provider. ThreadSol's technology focuses on fabric usage optimisation in apparel manufacturing and helps customers reduce fabric waste and cost, and establish accurate product costing. The Group has acquired ThreadSol in order to expand the offerings of the existing Coats Global Services business. The initial cash outflow for the acquisition is \$5 million with further consideration of up to \$7 million payable over the period to 2022 based on certain performance criteria.

On 20 February 2019 the Group completed the sale of the North America Crafts business (see note 13 for further details).

Coats Group plc

Notes to the financial information for the year ended 31 December 2018 (continued)

16. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2018 and up to the date of this report:

M Clasper CBE
R Sharma
M Allen
R Anderson (Resigned 16 May 2018)
S Boddie
N Bull
A Fahy (Appointed 1 March 2018)
D Gosnell OBE
H Lu
F Philip
A Rosling CBE

On behalf of the Board
M. Clasper
Chairman
1 March 2019

United Kingdom

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Registered in England No. 103548