Coats Group plc

2018 Half Year results

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, today announces its unaudited results for the six months ended 30 June 2018.

* *denotes a KPI*	H1 2018	H1 2017	Change	CER change [1]	Organic change [1]
Revenue	$788m	$740m	7%	5%	2%*
Adjusted [1]					
Operating profit	$100m	$89m	13%	12%	11%*
Basic earnings per share	3.6c	3.1c	19%*		
Free cash flow (last twelve months) [3]	$85m*	$109m	(22)%		
Return on capital employed (ROCE)	35%*	34%	100bps		
Reported [4]					
Operating profit	$81m	$86m	(6)%		
Basic earnings per share	2.4c	2.9c	(17)%		
Net cash generated by operating activities [2]	$4m	$(311)m			
Dividend per share (interim)	0.50c	0.44c	14%		

Highlights

- Revenue growth of 5% on a CER basis to $788 million (7% reported), with 2% organic growth and a 3% contribution from the acquisition of Patrick Yarn Mill.
- Continued strong revenue performance in Apparel and Footwear thread (up 4%), double-digit organic growth in hi-tech Performance Materials and an improving trend in NA Crafts.
- Adjusted operating profit up 12% on a CER basis to $100 million (reported $81 million, down 6%); adjusted operating margin up 70bps to 12.7%.
- Connecting for Growth programme has started well with benefits being realised faster than initially anticipated; $10 million net benefits now expected in 2018 (previously $5 million).
- Adjusted EPS up 19% to 3.6 cents (reported EPS of 2.4 cents, down 17%) as a result of higher operating profits, a further reduction in effective tax rate and a lower pension finance charge.
- Adjusted free cash flow for the last twelve months $85 million; down 22% on the same period to June 2017 due to planned increase in capital expenditure, however in line with full year 2017 ($87 million).
- Completed merger of the three UK Defined Benefit Pension Schemes into one single new scheme; the Coats UK Pension Scheme.
- The Board has declared an interim dividend of 0.50 cents per share, representing 14% growth (2017: 0.44 cents per share).

Commenting on Coats 2018 Half Year results Rajiv Sharma, Group Chief Executive, said:

‘Coats continued its good start to the year, with CER revenue growth of 5% and an adjusted operating profit growth of 12%, achieved by the strong performance of the Industrial Division. We have continued to outperform the market in Apparel and Footwear despite continued mixed demand from retailers by maintaining our customer-led approach to service, digital solutions and corporate social responsibility. We have leveraged our global footprint and customer base to expand our Performance Materials business. Innovation capability has been enhanced by the recent acquisition of Patrick Yarn Mill. In North America Crafts, we have seen an improving trend so far this year however market conditions remain tough.

Our customers require an increased emphasis on speed, quality, value, innovation and corporate responsibility. To accelerate our transition from industrial to digital, we launched the Connecting for Growth transformation programme in February, which will support our next phase of development. Due to the encouraging start made by this programme, where we are realising benefits faster than initially anticipated, I am pleased to report that the net benefits (after reinvestments) in 2018 are now expected to be $10 million (previously $5 million).

We look to build on a strong first half of the year by continuing to outperform the market, deliver productivity improvements, maintain tight control of our cost base, whilst investing in our growth opportunities. As a result of the faster delivery of the net benefits from the Connecting for Growth programme, we now anticipate delivering a full year performance slightly ahead of management’s previous expectations.’

1 Non-statutory measures (Alternative Performance Measures) are reconciled to the nearest corresponding statutory measure in note 15. 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 $353 million payments into the three UK defined benefit schemes in 2017.

3 From H1 2019 and subsequent interim reporting, it is anticipated that adjusted free cash flow for the 6 month period (with associated comparator) will be presented instead of for the last twelve months.

4 Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.

Conference call

Coats Management will discuss this report in a webcast / conference call with analysts and investors at 0900 BST today (31 July 2018). The webcast can be accessed via www.coats.com/investors/hy18. The conference call can be accessed by dialling +44 (0)20 3936 2999 and using participant access code '46 87 36'. The webcast will also be made available in archive form on www.coats.com.

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About Coats Group plc

Coats is the world's leading industrial thread manufacturer and a major player in the Americas textile crafts market. At home in some 50 countries, Coats employs 19,000 people across six continents. Revenues in 2017 were US$1.5bn. Coats' pioneering history and innovative culture ensure the company continues leading the way around the world, providing complementary and value added products and services to the apparel and footwear industries; applying innovative techniques to develop high technology Performance Materials threads and yarns in areas such as automotive composites and fibre optics; and extending the crafts offer into new markets and online. Headquartered in the UK, Coats is a FTSE 250 listed company on the London Stock Exchange. To find out more about Coats visit www.coats.com.

Summary

	H1 2018 $m	H1 2017 $m	Inc / (dec) %	H1 2017 CER [1] $m	CER [1] inc/(dec) %	Organic [4] inc/(dec) %
Revenue [2]						
Industrial	695	642	8%	653	7%	3%
Crafts	93	98	(5)%	97	(4)%	(4)%
Total	**788**	**740**	**7%**	**749**	**5%**	**2%**
Adjusted operating profit [2, 3]						
Industrial	103	88	18%	89	16%	15%
Crafts	1	5	(83)%	5	(83)%	(83)%
UK pension admin	(4)	(4)		(4)		
Group	**100**	**89**	**13%**	**90**	**12%**	**11%**
Adjusted operating margin						
Industrial	**14.8%**	13.6%	**120bps**	13.6%	**130bps**	**160bps**
Crafts	**1.0%**	5.3%	**(430)bps**	5.5%	**(450)bps**	**(450)bps**
Group	**12.7%**	12.1%	**70bps**	12.0%	**70bps**	**100bps**

1 *2017 figures restated at 2018 exchange rates*
2 *Includes contributions from bolt-on acquisitions*
3 *On an adjusted basis which excludes exceptional and acquisition related items; 2018 $19.5 million (2017: $2.7 million)*
4 *On a CER basis excluding contributions from bolt-on acquisitions*

Revenues increased 7% in the first half of 2018, with a marginal positive impact of foreign exchange, and 5% growth on a CER basis. This CER growth consisted of 2% organic growth and a 3% contribution from the acquisition of Patrick Yarn Mill (acquired in December 2017).

Industrial revenues grew 7% on a CER basis, driven by continued momentum in the Apparel and Footwear business (up 3%) where our core thread business grew robustly (up 4%) as key Asian markets performed strongly. This performance delivered further market outperformance, alongside continued mixed demand from retailers, and was underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility credentials. In addition, the Performance Materials business grew 21% year-on-year, with 5% organic growth and a 16% contribution from the acquisition of Patrick Yarn Mill which continues to perform in line with expectations. Organic growth in Performance Materials was underpinned by continued double-digit growth in hi-tech end uses (for example flame retardant yarns), with some weakness in certain traditional end use segments. Geographically, Industrial organic growth of 3% was underpinned by the key Asia region (up 5%), flat year-on-year revenues in the Americas (including a continued modest decline in the US consumer durables market), alongside comparatively lower growth in EMEA (up 1%) following a strong 2017.

The Crafts division saw revenues decline 4% on a CER basis. The larger North American Crafts business showed a decline of 2%, which was partly due to the adverse impact in the period of the introduction of own-label handknitting products at a major customer (which commenced in H2 2017). H1 2017 revenues were impacted by $10m as a result of the business disruption caused by the tornado that hit the Albany, GA, distribution facility in January 2017. The smaller Latin American Crafts business, which is in the process of being integrated within the Industrial division, showed a decline of 8% in the period due to slower demand in the key markets of Brazil and Argentina.

Group adjusted operating profit increased 12% to $100 million on a CER basis (2017: $90 million) and operating margins were up 70 bps to 12.7% (2017: 12.0%) driven by a strong performance in the Industrial business with some offset in Crafts. On a reported basis, operating profit (which is after exceptional and acquisition related items) decreased 6% to $81 million (2017: $86 million), primarily due to the initial exceptional reorganisation cost incurred in relation to the Connecting for Growth programme. Exceptional and acquisition related items are not allocated to segments and as such segmental performance commentary is based on adjusted operating profit.

Industrial adjusted operating profit grew 16% on a CER basis to $103 million and margins were up 130bps to 14.8%. This was due to volume growth, realising price increases through continually focusing on our customers' needs (e.g. speed, quality, innovation and corporate responsibility), productivity and procurement improvements, and continued cost control which more than offset input cost and other structural inflation. Furthermore, the initial benefits from the Connecting for Growth programme have been realised faster than initially anticipated ($4m net savings, after reinvestments, year-to-date), which has further contributed to margin progression in the period (see details later). The raw material cost increases incurred during the period (partly linked to the rising oil price) and other structural inflation (e.g. wages and energy) have been addressed through price increases, alongside other self-help initiatives. We anticipate these initiatives will reduce the impact of further raw material cost increases in H2. On an organic basis, Industrial operating margins increased by 160bps, which is above the CER increase of 130bps, as the latter was impacted by the anticipated initial dilution of Group and Industrial 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.

Adjusted operating margins in the Crafts Division reduced to 1.0% (H1 2017: 5.5%) and adjusted operating profits were down 83% to $1 million (H1 2017: $5 million), although H1 2017 margins benefited partially from the profit insurance cover in relation to lost revenues resulting from the tornado ($10m lost revenues). In addition to volume declines in both North America and Latin America that reduced operating profits, margins were adversely impacted due to lower manufacturing activity levels, as well as the remaining duplicate facility costs incurred as a result of the 2017 tornado. Offsetting these were the realisation of the initial cost synergies in the Latin American business ahead of its eventual full integration with the Industrial business, and the impact of the exit of the non-core lifestyle fabrics business in the period (which contributed $10 million revenues in H1).

The reported Group revenue growth of 7% included a marginal benefit (1%) in relation to foreign exchange due to the US dollar weakening against certain key trading currencies vs 2017, for example the Chinese Yuan, Euro and Mexican Peso. We note that based on current spot exchange rates (30 June 2018) this modest foreign exchange benefit seen in the first half would result in a small overall headwind for the full year.

Financial summary

Adjusted earnings per share ('EPS') for the six months increased 19% to 3.6 cents (H1 2017: 3.1 cents) due to higher adjusted operating profits (12% CER growth), a 200bps reduction in effective tax rate to 31%, and a $3 million reduction in the IAS19 pension finance charge. On a reported basis, the Group generated an attributable profit from continuing operations of $34 million compared to $40 million in H1 2017. The reduction primarily being due to a $15 million increase in exceptional and acquisition related items (net of tax) arising mainly from the initial Connecting for Growth programme reorganisation charges.

There was an adjusted free cash flow of $18 million in the first half of 2018 which reflects the intra-year working capital cycle of the business. This was broadly in line with the same period in 2017 (H1 2017: $21 million), as increased profitability was offset by normalised level of working capital outflow in the first half of the year. On a last twelve months' basis, the Group generated an adjusted free cash flow of $85 million to June 2018 (last twelve months to June 2017: $109 million). The 22% decrease on 2017 was driven by a $10 million increase in capital expenditure (largely in H2 2017) and a normalised level of net working capital outflow of $19 million (last twelve months to June 2017: $13 million inflow due to improvements in days sales and days payables outstanding), offset to some extent by increased profitability. As a percentage of revenues, net working capital as at 30 June 2018, is in line with last year at 13%.

Last twelve months adjusted free cash flow of $85 million is in line with the adjusted free cash flow for the year ending 31 December 2017 of $87 million.

Net debt as at 30 June 2018 was $270 million, marginally higher than 30 June 2017 ($261 million). Adjusted free cash flow for the last twelve months of $85 million has been offset by acquisition spend of $22 million (largely up-front consideration in relation to Patrick Yarn Mill), shareholder dividends of $20 million, ongoing pension deficit recovery payments $32 million, and exceptional costs of $26 million (primarily in relation to the Connecting for Growth programme, and the final earn-out on the Gotex acquisition). An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA, which improved to 1.2x adjusted EBITDA at 30 June 2018 (1.3x at 30 June 2017).

Return on capital employed (ROCE – see note 15 for definition) improved marginally on 2017 to 35%, as higher adjusted operating profits and controlled working capital were offset by the anticipated increase in capital expenditure.

Connecting for Growth programme

As announced in February, 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. After reinvestments of c.$10 million per annum, the programme is anticipated to deliver net annualised operating cost savings of $15 million by 2020. Expectations for the full programme savings to be delivered by 2020 remain in line with this previous guidance.

The majority of savings are expected 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 are redesigning the way we service a number of our peripheral markets, and we have moved from a business operated by individual local management teams into 10 scalable clusters.

Encouraging progress has been made since February, and as a result, initial net benefits (after reinvestments), are being realised faster than initially anticipated with $4 million net benefits in the first half of 2018 ($5 million gross savings). After reinvestments, the net benefits in the full year 2018 are now expected to be $10 million (previously $5 million). $17 million of the anticipated $30 million total exceptional reorganisation charge has been incurred to date.

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.

The Board has declared an ordinary interim dividend per share of 0.50c, which reflects 14% year-on-year growth (2017: 0.44c), to be paid on 16 November (payment date) to shareholders on the register on 26 October (record date), with an ex-date of 25 October.

The proposed full year dividend will be announced in March 2019 alongside the Full Year 2018 results.

Outlook

We look to build on a strong first half of the year by continuing to outperform the market, deliver productivity improvements, maintain tight control of our cost base, whilst investing in our growth opportunities.

As a result of the faster delivery of the net benefits from the Connecting for Growth programme, we now anticipate delivering a full year performance slightly ahead of management's previous expectations.

Operating Review

Industrial

	H1 2018	H1 2017	Inc / (dec)	H1 2017 CER [1]	CER [1] inc/(dec)	Organic [5] inc/(dec)
	$m	$m	%	$m	%	%
Revenue [2]						
By business						
Apparel and Footwear [3]	529	507	**4%**	515	**3%**	**3%**
Performance Materials	167	135	**24%**	138	**21%**	**5%**
Total	**695**	**642**	**8%**	**653**	**7%**	**3%**
By region						
Asia	397	373	6%	377	5%	5%
Americas	150	130	16%	129	17%	0%
EMEA	148	140	6%	147	1%	1%
Total	**695**	**642**	**8%**	**653**	**7%**	**3%**
Adjusted operating profit [2,4]	**103**	**88**	**18%**	**89**	**16%**	**15%**
Adjusted operating margin [2,4]	**14.8%**	**13.6%**	**120bps**	**13.6%**	**130bps**	**160bps**

1 *2017 figures at 2018 exchange rates*
2 *Includes contribution from bolt-on acquisitions*
3 *Includes accessories, zips and trims and global services*
4 *On an adjusted basis which excludes exceptional and acquisition related items.*
5 *On a CER basis excluding contributions from bolt-on acquisitions*

Industrial revenues grew 8% on a reported basis in the period, 7% on a CER basis, due to continued momentum in Apparel and Footwear (~70% of Group revenues) which grew 3%, along with 21% growth in Performance Materials (5% organic growth and 16% contribution from the Patrick Yarn Mill acquisition).

The strong Apparel and Footwear performance in the period delivered further market outperformance as there continued to be mixed demand from retailers. This outperformance was achieved by maintaining our customer-led approach to innovation and digital solutions, alongside our strong corporate responsibility credentials. Coats' ability to continue to outperform the market 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 was the launch of the new Coats.com website in the period and there were further enhancements to our customer facing eCommerce platform (e.g. 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 seen strong demand for our 100% post-consumer recycled thread (Epic EcoVerde) since its launch last year.

Performance Materials revenues grew 21% in the period on a CER basis (24% reported), which includes a 16% contribution from the acquisition of Patrick Yarn Mill (acquired in December 2017). Organic growth of 5% was underpinned 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. However, the US consumer durables market (e.g. "traditional" end uses such as bedding and quilting) remained soft. Growth in hi-tech end uses which now account for more than 50% of Performance Materials revenues (e.g. wire and cable, and engineering performance yarns) remained strong throughout the period delivering double-digit year-on-year growth (15% 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 5 years ago (for example, Coats Synergex and a "cooling" yarn developed by Patrick Yarns for use in apparel sportswear). Overall, following the Performance Materials organic growth of 4% in the January – April period which was reported in May 2018, we have seen the organic growth for the first half of 2018 improve to 5%.

By region, revenue in Asia grew 5% on a CER basis as momentum in key Apparel and Footwear markets (e.g. Vietnam, Indonesia and Bangladesh) continued. Revenues in EMEA rose 1%, which was on top of the strong growth seen in full year 2017 of 14% (which included a 5% contribution from the acquisitions of Gotex and Fast React). This reduced growth was driven by lower zips sales as a result of certain short-term fashion trends, as well as lost revenues from certain peripheral markets that were exited in the period (as part of the Connecting for Growth programme). In the Americas, organic revenue was flat year-on-year as the US consumer durables market remained soft, which was offset by an encouraging performance in certain Latam markets (e.g. Performance Materials revenues in Brazil and Mexico).

Industrial adjusted operating profit increased 16% to $103 million on a CER basis (H1 2017: $89 million) and margins increased 130bps to 14.8%. This reflected volume growth driving a positive operational gearing impact, realising price increases through continually focusing on our customers' needs (e.g. speed, quality, innovation and corporate responsibility), ongoing productivity and procurement savings, and a close control of costs (including $4 million of net benefits from the Connecting for Growth programme). The raw material cost increases incurred during the period (partly linked to the rising oil price) and other structural inflation (e.g. wages and energy) have been addressed through price increases, alongside other self-help initiatives. We anticipate these initiatives will reduce the impact of further raw material cost increases in H2. On an organic basis, margins increased by 160bps which was ahead of the 130bps CER increase, as the latter was impacted by the anticipated initial dilution of Industrial 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.

Crafts

	H1 2018	H1 2017	Inc / (dec)	H1 2017 CER [1]	CER [1] inc/(dec)
	$m	$m	%	$m	%
Revenue					
By business					
Handknittings	44	47	**(7)%**	47	**(6)%**
Needlecrafts [2]	49	51	**(3)%**	50	**(2)%**
Total	**93**	**98**	**(5)%**	**97**	**(4)%**
By region					
North America	62	63	**(1)%**	63	**(2)%**
Latin America	31	35	**(12)%**	34	**(8)%**
Total	**93**	**98**	**(5)%**	**97**	**(4)%**
Adjusted operating profit [3]	**1**	**5**	**(83)%**	**5**	**(83)%**
Adjusted operating margin [3]	**1.0%**	**5.3%**	**(430)bps**	**5.5%**	**(450)bps**

1 *2017 figures at 2018 exchange rates.*
2 *Includes other textile craft products such as consumer sewings and lifestyle fabrics.*
3 *On an adjusted basis which excludes exceptional and acquisition related items.*

Crafts revenues declined 4% on a CER basis (5% reported decline). The revenue decline was split across both the Handknittings (down 6%) and Needlecrafts (down 2%) categories. By geography, revenues declined 2% in North America (2017 full year 15% decline) due to the adverse impact in the period of the introduction of own-label handknitting products at a major customer (which commenced in H2 2017). H1 2017 North America revenues were impacted by $10m as a result of the business disruption caused by the tornado that hit the Albany, GA, distribution facility in January 2017. Revenues in the smaller Latin America market declined 8% on

a CER basis, with some demand softness in the key markets of Brazil and Argentina (following a stronger 2017).

Adjusted operating margins in the Crafts Division reduced to 1.0% (H1 2017: 5.5%) and adjusted operating profits were down 83% to $1 million (H1 2017: $5 million), although H1 2017 margins benefited partially from the profit insurance cover in relation to lost revenues resulting from the tornado. In addition to volume declines in both North America and Latin America that reduced operating profits, margins were adversely impacted due to lower manufacturing activity levels, as well as the remaining duplicate facility costs incurred as a result of the 2017 tornado. Offsetting these were the realisation of the initial cost synergies in the Latin American business ahead of its eventual full integration with the Industrial business, and the impact of the exit of the non-core lifestyle fabrics business in the period (which contributed $10 million revenues in H1).

The division has continued to make good progress in the areas of enhancing its online offerings and new product launches. The new management team is now in place in our North American Crafts business and is in the process of implementing a revised and refocused strategy, and the previously announced integration of the Latin American business with the Industrial operations remains ongoing.

Financial review

Adjusted EPS for the period increased 19% to 3.6 cents (H1 2017: 3.1 cents) due to the higher operating profit, improvements in the underlying tax rate, and a lower pension finance charge. Reported EPS of 2.4 cents compares to 2.9 cents in 2017 with the decrease due to the increase in exceptional and acquisition related items (predominantly the Connecting for Growth exceptional reorganisation cost).

Non-operating results

Net finance costs in the period were $10.5 million, down from $11.2 million in H1 2017. The key drivers of the reduction in net finance costs in the period was a $3 million reduction in the pensions finance charge, which was partially offset by marginally higher interest on borrowings and a small MTM foreign exchange loss (June 2017 $1m MTM foreign exchange gain).

The taxation charge for the period was $26.0 million (H1 2017: $27.2 million) resulting in a reported tax rate of 37% (H1 2017: 36%). 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 by 200bps to 31% year-on-year (H1 2017: 33%, FY 2017: 32%) which was driven by a reduction in unrelieved losses, together with a favourable change in profit mix for the period.

Profit attributable to minority interests was $10.1 million (2017: $8.2 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 $19.5 million in the period. These primarily relate to the initial exceptional reorganisation charge arising from the Connecting for Growth programme ($17.4 million in H1 2018 out of a total expected charge of $30 million for the programme). In addition, there are the amortisation of intangible assets acquired in the recent acquisitions ($1.2 million), contingent consideration in relation to these acquisitions ($2.5 million), offset by an exceptional pension gain following the wind up of the 3 UK pension schemes ($1.6 million - see later for details). In H1 2017 net exceptional and acquisition related items before taxation totalled $2.7 million.

Lower Passaic River

In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC'), a subsidiary within the Coats Group, that it was a 'potentially responsible party' 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. CC has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process.

In 2015, a provision of $15.8 million was recorded for remediation costs and associated legal and professional costs based on CC's estimated share of de minimis costs for appropriate remedies, net of insurance reimbursements.

EPA has invited a number of parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. The allocation process is expected to be completed by the end of 2019, although that date may be extended.

On 30 June 2018, Occidental Chemical Corporation ('OCC'), which 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's lawsuit seeks resolution of many of the same issues being addressed in the EPA's allocation process and does not alter our defences or our view that we are a de minimis party. As a result, no additional provision has been recorded in H1 2018.

See note 10 for further details.

Investment

Capital expenditure in the period, in addition to ongoing maintenance requirements, related to new product development (e.g. on-going development of our global innovation hubs), process improvements, 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 period) 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 reflected by our recent entry to the FTSE4Good UK equities index) as well as benefiting the local communities that we do business in. Total capital spend for the period amounted to $21 million (1.1x depreciation and amortisation).

In order to continue to support our growth strategy and reinforce our strong environmental compliance credentials we anticipate capital spend to remain in the $50-60 million range for 2018, in line with previous guidance.

Cash flow

There was an adjusted free cash flow of $18 million (reported net cash generated by operating activities $4 million) in the first half of 2018 which reflects the intra-year working capital cycle of the business. This was broadly in line with the same period in 2017 (H1 2017: $21 million), as increased profitability, and the proceeds from the sale of a property (in relation to our lifestyle fabrics business which was exited in the period), was offset by a normalised level of working capital outflow in the first half of the year. The lower levels of adjusted free cash flow generated in the first half reflects Coats' normal cash flow cycle, whereby the second half cash flow significantly exceeds that in the first half.

Adjusted EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) for the half was $120 million (H1 2017: $109 million). Net working capital as a percentage of sales remained at 13% as working capital continues to be effectively controlled and the benefits seen at 30 June 2017 have largely been sustained. Interest paid was $8 million, $2 million higher than 2017 due to marginally higher interest on floating rate debt. Tax paid was $26 million, a $2 million reduction from H1 2017, where higher profitability in the first half of 2018 was offset by a favourable change in profit mix.

On a non-adjusted basis, there was a free cash outflow of $26 million in the first half, compared to a $345 million outflow in H1 2017. The improvement was primarily related to $353 million of payments into the three UK defined benefit pension schemes in H1 2017 following settlement with their respective trustees (including $340 million of upfront payments out of parent group cash).

For the twelve months to 30 June 2018, Coats generated $85 million of adjusted free cash flow. This was broadly in line with the $87 million generated for the full year 2017, although behind the unusually high $109 million free cash flow for the twelve months to 30 June 2017 (which was prior to the anticipated increase in capital expenditure (largely in H2 2017) and benefitted from certain year-on-year improvements to net working capital, as referred to above). 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.

Balance sheet

The Group had a net debt position of $270 million at 30 June 2018 (30 June 2017: net debt $261 million). An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA. Net debt at 30 June 2018 improved to 1.2x adjusted EBITDA of the last twelve months (1.3x at 30 June 2017).

Pensions and other post-employment benefits
The net obligation for the Group's retirement and other post-employment defined benefit liabilities, on an IAS19 financial reporting basis, was $55 million as at 30 June 2018, down from $163 million at 31 December 2017.

The Group's UK defined benefit schemes, namely the UK Coats Plan, and Brunel and Staveley schemes, show a marginal surplus position of $1 million (£0 million) at 30 June 2018, which is an improvement from the deficit position at 31 December 2017 ($106 million, £79 million). The movement in the period of $107 million primarily consisted of actuarial gains of $100 million (mainly related to changes to the discount rate and mortality assumptions).

IAS19 (surplus)/deficit	**30 Jun 2018 $m**	**31 Dec 2017 $m**	**30 Jun 2018 £m**	**31 Dec 2017 £m**
Coats Plan	(13)	78	(10)	58
Brunel	19	30	15	22
Staveley	(7)	(2)	(5)	(1)
UK defined benefit schemes	**(1)**	106	**-**	79
Other Coats net employee benefit obligations	56	57		
Total	**55**	163		

UK Pension Scheme Consolidation and Triennial funding valuations

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 savings in administration expenses and efficiencies in investment management. We currently estimate administration expenses and levies to be £5 million per annum and anticipate this reducing to an estimated £4 million per annum once savings are fully realised.

The Current Schemes will be wound-up and as part of this process a number of the Current Schemes' members with small pension entitlements have been given the option to exchange their pension entitlement for a cash lump sum. To date this process has resulted in approximately 1600 members taking this option. We reflect this as an exceptional gain of £1.3 million ($1.6 million) in the IAS19 pension liabilities reported. The deadline for accepting this option closes shortly and a further, non-material, exceptional gain will accrue and be reflected in our 2018 full year reporting.

The next triennial funding valuations for the Current Schemes have an effective date of 31 March 2018. As a consequence of the transfer of assets and liabilities to the Coats UK Pension Scheme and the Current Schemes being wound-up these valuations will not now be required. The Coats UK Pension Scheme will conduct its first valuation with a 30 June 2018 effective date. This valuation will determine the Group's agreed future contribution requirements and the process is still expected to be completed in the first half of 2019. Pending agreement of this valuation the Group will pay deficit recovery contributions to the Coats UK Pension Scheme in the aggregate of the contributions that were being paid to the Current Schemes. The Group will continue to meet the UK pension schemes' administration expenses and levies. Deficit recovery contributions for 2018 are anticipated to be at the previously agreed level of £17.5 million ($23 million), including administration expenses and levies.

As mentioned above, there is a reported marginal surplus for the UK pension schemes as at 30 June 2018 on an IAS19 basis. However, it should be noted that the pension scheme's trustee is required to calculate the liabilities on the more prudent Technical Provisions basis; and that real UK interest rates have reduced since March 2015, which was the date of the last triennial valuation. The Coats UK Pension Scheme hedges c.70% of interest rate and inflation-linked liabilities.

INDEPENDENT REVIEW REPORT TO COATS GROUP PLC

We have been engaged by Coats Group plc (the 'Company') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 21. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
31 July 2018

Condensed consolidated financial statements

Condensed consolidated income statement
For the half year ended 30 June 2018

	Note	Half year 2018			Half year 2017			Full year 2017
		Before exceptional and acquisition related items unaudited US$m	**Exceptional and acquisition related items (note 3) unaudited US$m**	**Total unaudited US$m**	Before exceptional and acquisition related items unaudited US$m	Exceptional and acquisition related items (note 3) unaudited US$m	Total unaudited US$m	Total audited US$m
Continuing operations								
Revenue		**788.2**	**-**	**788.2**	740.0	-	740.0	1,510.3
Cost of sales		**(498.5)**	**(3.8)**	**(502.3)**	(451.2)	-	(451.2)	(932.9)
Gross profit		**289.7**	**(3.8)**	**285.9**	288.8	-	288.8	577.4
Distribution costs		**(95.0)**	**(3.9)**	**(98.9)**	(101.0)	-	(101.0)	(193.2)
Administrative expenses		**(98.0)**	**(11.8)**	**(109.8)**	(101.7)	(2.7)	(104.4)	(217.1)
Other operating income		**3.7**	**-**	**3.7**	3.1	-	3.1	0.1
Operating profit		**100.4**	**(19.5)**	**80.9**	89.2	(2.7)	86.5	167.2
Share of (losses)/profits of joint ventures		**(0.1)**	**-**	**(0.1)**	0.5	-	0.5	(1.3)
Investment income	**4**	**1.3**	**-**	**1.3**	1.1	-	1.1	2.1
Finance costs	**5**	**(11.8)**	**-**	**(11.8)**	(12.3)	-	(12.3)	(25.1)
Profit before taxation		**89.8**	**(19.5)**	**70.3**	78.5	(2.7)	75.8	142.9
Taxation	**6**	**(28.1)**	**2.1**	**(26.0)**	(27.6)	0.4	(27.2)	(47.8)
Profit for the period		**61.7**	**(17.4)**	**44.3**	50.9	(2.3)	48.6	95.1
Attributable to:								
Equity shareholders of the company		**51.5**	**(17.3)**	**34.2**	42.7	(2.3)	40.4	80.8
Non-controlling interests		**10.2**	**(0.1)**	**10.1**	8.2	-	8.2	14.3
		61.7	**(17.4)**	**44.3**	50.9	(2.3)	48.6	95.1
Earnings per ordinary share (cents)	**7**							
Basic				**2.41**			2.89	5.78
Diluted				**2.39**			2.83	5.67
Adjusted earnings per share	**15 (d)**			**3.63**			3.06	6.37

The results for the periods presented above are wholly derived from continuing operations.

Condensed consolidated statement of comprehensive income
For the half year ended 30 June 2018

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Profit for the period	**44.3**	48.6	95.1
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains in respect of retirement benefit schemes	**98.6**	68.8	145.2
Tax relating to items that will not be reclassified	**-**	-	1.0
	98.6	68.8	146.2
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges arising during the period	**(2.9)**	(0.4)	(1.1)
Transferred to profit or loss on cash flow hedges	**(0.4)**	0.3	0.2
Exchange differences on translation of foreign operations	**(23.6)**	0.2	(6.1)
	(26.9)	0.1	(7.0)
Other comprehensive income and expense for the period	**71.7**	68.9	139.2
Net comprehensive income and expense for the period	**116.0**	117.5	234.3
Attributable to:			
Equity shareholders of the company	**106.3**	109.2	219.9
Non-controlling interests	**9.7**	8.3	14.4
	116.0	117.5	234.3

Condensed consolidated statement of financial position
At 30 June 2018

	Note	30 June 2018 unaudited US$m	30 June 2017 unaudited US$m	31 December 2017 * audited US$m
Non-current assets				
Intangible assets		**286.3**	291.1	291.5
Property, plant and equipment		**287.0**	268.5	297.3
Investments in joint ventures		**11.9**	10.6	12.0
Other equity investments		**1.1**	1.2	1.2
Deferred tax assets		**22.3**	24.5	24.6
Pension surpluses		**83.8**	49.8	57.9
Trade and other receivables		**22.4**	17.6	21.5
		714.8	663.3	706.0
Current assets				
Inventories		**236.5**	235.4	232.2
Trade and other receivables		**304.1**	280.7	268.9
Other investments		**-**	0.2	0.2
Pension surpluses		**6.9**	6.7	6.9
Cash and cash equivalents	**11 (e)**	**126.4**	142.2	118.4
Non-current assets classified as held for sale	**14**	**1.0**	0.2	0.2
		674.9	665.4	626.8
Total assets		**1,389.7**	1,328.7	1,332.8
Current liabilities				
Trade and other payables		**(331.2)**	(324.7)	(330.4)
Current income tax liabilities		**(9.8)**	(9.9)	(8.7)
Bank overdrafts and other borrowings		**(18.5)**	(35.8)	(1.7)
Retirement benefit obligations:				
- Funded schemes		**(16.5)**	(16.1)	(16.9)
- Unfunded schemes		**(7.1)**	(6.2)	(7.4)
Provisions		**(15.5)**	(14.7)	(18.3)
		(398.6)	(407.4)	(383.4)
Net current assets		**276.3**	258.0	243.4
Non-current liabilities				
Trade and other payables		**(30.2)**	(17.1)	(27.2)
Deferred tax liabilities		**(16.7)**	(33.5)	(16.5)
Borrowings		**(378.1)**	(366.9)	(358.2)
Retirement benefit obligations:				
- Funded schemes		**(22.6)**	(169.1)	(101.1)
- Unfunded schemes		**(99.4)**	(101.2)	(102.6)
Provisions		**(32.4)**	(36.0)	(33.5)
		(579.4)	(723.8)	(639.1)
Total liabilities		**(978.0)**	(1,131.2)	(1,022.5)
Net assets		**411.7**	197.5	310.3
Equity				
Share capital	**8**	**88.4**	87.4	87.5
Share premium account		**10.4**	5.9	7.7
Own shares	**8**	**(7.1)**	(8.6)	(7.7)
Translation reserve		**(72.0)**	(42.5)	(48.8)
Capital reduction reserve		**59.8**	59.8	59.8
Other reserves		**242.5**	246.6	245.8
Retained profit/(loss)		**61.4**	(174.8)	(58.6)
Equity shareholders' funds		**383.4**	173.8	285.7
Non-controlling interests		**28.3**	23.7	24.6
Total equity		**411.7**	197.5	310.3

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

Condensed consolidated statement of changes in equity
For the half year ended 30 June 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 profit/ (loss) US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
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 period	-	-	-	0.1	-	(0.1)	109.2	109.2	8.3	117.5
Dividends	-	-	-	-	-	-	(11.7)	(11.7)	(7.1)	(18.8)
Issue of ordinary shares	0.3	2.2	-	-	-	-	-	2.5	-	2.5
Movement in own shares	-	2.9	0.1	-	-	-	(3.1)	(0.1)	-	(0.1)
Share based payments	-	-	-	-	-	-	3.8	3.8	-	3.8
Deferred tax on share schemes	-	-	-	-	-	-	1.6	1.6	-	1.6
Balance as at 30 June 2017	87.4	5.9	(8.6)	(42.5)	59.8	246.6	(174.8)	173.8	23.7	197.5
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**
Net comprehensive income and expense for the period	**-**	**-**	**-**	**(23.2)**	**-**	**(3.3)**	**132.8**	**106.3**	**9.7**	**116.0**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(14.1)**	**(14.1)**	**(6.0)**	**(20.1)**
Issue of ordinary shares	**0.9**	**2.7**	**-**	**-**	**-**	**-**	**(0.6)**	**3.0**	**-**	**3.0**
Movement in own shares	**-**	**-**	**0.6**	**-**	**-**	**-**	**(0.1)**	**0.5**	**-**	**0.5**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**4.0**	**4.0**	**-**	**4.0**
Deferred tax on share schemes	**-**	**-**	**-**	**-**	**-**	**-**	**(2.0)**	**(2.0)**	**-**	**(2.0)**
Balance as at 30 June 2018	**88.4**	**10.4**	**(7.1)**	**(72.0)**	**59.8**	**242.5**	**61.4**	**383.4**	**28.3**	**411.7**

Condensed consolidated cash flow statement
For the half year ended 30 June 2018

	Note	**Half year 2018 unaudited US$m**	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Cash inflow/(outflow) from operating activities				
Net cash inflow/(outflow) from operations	**11 (a)**	**37.9**	(277.5)	(157.4)
Interest paid		**(7.7)**	(5.9)	(13.7)
Taxation paid		**(26.0)**	(27.6)	(60.5)
Net cash generated by/(absorbed in) operating activities		**4.2**	(311.0)	(231.6)
Cash outflow from investing activities				
Investment income	**11 (b)**	**0.2**	1.3	1.3
Net capital expenditure and financial investment	**11 (c)**	**(15.0)**	(19.7)	(49.7)
Acquisitions and disposals	**11 (d)**	**1.1**	-	(23.1)
Net cash absorbed in investing activities		**(13.7)**	(18.4)	(71.5)
Cash inflow/(outflow) from financing activities				
Receipts from exercise of share options		**3.0**	2.5	3.0
Dividends paid to equity shareholders		**(13.3)**	(11.4)	(17.6)
Dividends paid to non-controlling interests		**(6.0)**	(7.1)	(12.3)
Net increase/(decrease) in debt and finance leasing		**19.7**	3.8	(41.1)
Net cash generated by/(absorbed in) financing activities		**3.4**	(12.2)	(68.0)
Net decrease in cash and cash equivalents		**(6.1)**	(341.6)	(371.1)
Net cash and cash equivalents at beginning of the period		**116.8**	470.3	470.3
Foreign exchange (losses)/gains on cash and cash equivalents		**(2.7)**	9.1	17.6
Net cash and cash equivalents at end of the period	**11 (e)**	**108.0**	137.8	116.8
Reconciliation of net cash flow to movement in net (debt)/cash				
Net decrease in cash and cash equivalents		**(6.1)**	(341.6)	(371.1)
Net (increase)/decrease in debt and lease financing		**(19.7)**	(3.8)	41.1
Change in net debt resulting from cash flows (Free cash flow)	**15 (e)**	**(25.8)**	(345.4)	(330.0)
Other non-cash movements		**(0.4)**	(1.0)	(5.0)
Foreign exchange (losses)/gains		**(2.5)**	7.7	15.3
Decrease in net cash		**(28.7)**	(338.7)	(319.7)
Net (debt)/cash at start of period		**(241.5)**	78.2	78.2
Net debt at end of period	**11 (e)**	**(270.2)**	(260.5)	(241.5)

Notes to the condensed consolidated financial statements
For the half year ended 30 June 2018

1. Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting, as adopted by the European Union, and the requirements of the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) in the United Kingdom as applicable to interim financial reporting.

The condensed consolidated financial statements for the six months ended 30 June 2018 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2017 were also reviewed but not audited.

The Condensed financial statements represent a 'condensed set of financial statements' as referred to in the DTR issued by the FCA. Accordingly, they do not include all of the information required for a full annual financial report and are to be read in conjunction with the Group's financial statements for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union (EU). The information for the year ended 31 December 2017 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). 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 balance sheet as at 31 December 2017 has been restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 12). The audit report on the statutory accounts for the year ended 31 December 2017 was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or 498(3) of the Companies Act 2006.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, and are expected to be applied in the annual audited financial statements for the current year other than the following new and revised standards and amendments and improvements to existing 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 contracts 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 current IAS 39 accounting policy set out in the 2017 Annual Report.

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 fair value through other comprehensive income, after which the Group will record their fair value movements in other comprehensive income.

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.

1. Basis of preparation (continued)

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 has completed its 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 assessment, discounts under certain arrangements were identified as being recorded as operating costs rather than deductions to revenue.

The Group adopted IFRS 15 using the modified retrospective approach with no changes to opening equity as at 1 January 2018. The immaterial deductions relating to discounts outlined above have been prospectively reclassified to revenue from 1 January 2018.

Functional and presentation currency

The functional currency of Coats Group plc continued to be United States dollars ('USD') during the six months ended 30 June 2018. In the prior year following the UK pensions settlement, it was determined that the functional currency of Coats Group plc had changed from Great Britain pounds sterling to USD, effective 1 March 2017.

The presentation currency of the Group is USD and remains unchanged.

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:

		June 2018	June 2017	December 2017
Average	Sterling	**0.73**	0.79	0.78
	Euro	**0.83**	0.92	0.89
	Brazilian Real	**3.43**	3.18	3.19
	Indian Rupee	**65.69**	65.69	65.09
Period end	Sterling	**0.76**	0.77	0.74
	Euro	**0.86**	0.88	0.83
	Brazilian Real	**3.86**	3.31	3.31
	Indian Rupee	**68.46**	64.62	63.87

2. Operating segments

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

Segment revenue and results

Six months ended 30 June 2018	Industrial US$m	Crafts US$m	Total US$m
Revenue	**695.2**	**93.0**	**788.2**
Segment profit	**103.1**	**0.9**	**104.0**
UK pension scheme administrative expenses			**(3.6)**
Operating profit before exceptional and acquisition related items			**100.4**
Exceptional and acquisition related items			**(19.5)**
Operating profit			**80.9**
Share of losses of joint ventures			**(0.1)**
Investment income			**1.3**
Finance costs			**(11.8)**
Profit before taxation from continuing operations			**70.3**

Six months ended 30 June 2017	Industrial US$m	Crafts US$m	Total US$m
Revenue	641.9	98.1	740.0
Segment profit	87.6	5.2	92.8
UK pension scheme administrative expenses			(3.6)
Operating profit before exceptional and acquisition related items			89.2
Exceptional and acquisition related items			(2.7)
Operating profit			86.5
Share of profit of joint ventures			0.5
Investment income			1.1
Finance costs			(12.3)
Profit before taxation from continuing operations			75.8

2. Operating segments (continued)

Year ended 31 December 2017	Industrial US$m	Crafts US$m	Total US$m
Revenue	1,296.9	213.4	1,510.3
Segment profit	172.9	7.1	180.0
UK pension scheme administrative expenses			(6.3)
Operating profit before exceptional and acquisition related items			173.7
Exceptional and acquisition related items			(6.5)
Operating profit			167.2
Share of losses of joint ventures			(1.3)
Investment income			2.1
Finance costs			(25.1)
Profit before taxation from continuing operations			142.9

Disaggregation of revenue

The following table shows revenue disaggregated by major product types and by primary geographical markets. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Major product types			
Industrial			
Apparel and Footwear	**528.6**	507.3	1,020.8
Performance Materials	**166.6**	134.6	276.1
	695.2	641.9	1,296.9
Crafts			
Handknittings	**44.1**	47.5	108.3
Needlecrafts	**48.9**	50.6	105.1
	93.0	98.1	213.4
Total	**788.2**	744.0	1,510.3
Primary geographical markets			
Industrial			
Asia	**396.9**	372.7	764.1
Americas	**150.1**	129.6	257.0
EMEA	**148.2**	139.6	275.8
	695.2	641.9	1,296.9
Crafts			
North America	**61.9**	62.8	149.1
Latin America	**31.1**	35.3	64.3
	93.0	98.1	213.4
Total	**788.2**	744.0	1,510.3

3. Exceptional and acquisition related items

The Group's consolidated income statement format is presented both 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 provides 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 15.

Exceptional items

Exceptional items are set out below:

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Exceptional items:			
Connecting for Growth programme reorganisation costs:			
- Cost of sales	**3.8**	-	-
- Distribution costs	**3.9**	-	-
- Administrative expenses	**9.7**	-	-
	17.4	-	-
Administrative expenses:			
UK pensions winding up lump sum	**(1.6)**	-	-
Total exceptional items charged to operating profit	**15.8**	-	-

Connecting for Growth programme reorganisation costs - 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 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 10 scalable clusters. Exceptional reorganisation costs of $17.4 million have been incurred in the six months ended 30 June 2018 comprising severance costs of $15.7 million, fixed asset impairment charges of $0.6 million, other asset write downs of $0.6 million and other closure costs of $0.5 million.

UK pensions winding up lump sum - 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 Current Schemes will be wound-up and as part of this process a number of the Current Schemes' members with small pension entitlements were given the option to exchange their pension entitlement for a cash lump sum. This process has resulted in an exceptional credit of $1.6 million, net of costs, in the six months ended 30 June 2018.

Share of losses of joint ventures for the year ended 31 December 2017 is after exceptional costs of $2.6 million (30 June 2018 and 30 June 2017: $nil) relating to the sale and closure of the business of Australia Country Spinners, a joint venture in Australia.

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

3. Exceptional and acquisition related items (continued)

Acquisition related items

Acquisition related items are set out below:

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Acquisition related items:			
Administrative expenses:			
Contingent consideration	**2.5**	1.7	4.0
Acquisition transaction costs	**-**	-	0.4
Amortisation of acquired intangibles	**1.2**	1.0	2.1
Total acquisition related items before taxation	**3.7**	2.7	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 periods 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 costs to be part of the underlying trading performance of the business.

4. Investment income

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Income from investments	**-**	0.2	0.3
Other interest receivable and similar income	**1.3**	0.9	1.8
	1.3	1.1	2.1

5. Finance costs

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Interest on bank and other borrowings	**7.7**	6.7	14.5
Net interest on pension scheme assets and liabilities	**2.1**	5.1	9.4
Other finance costs including unrealised gains and losses on foreign exchange contracts	**2.0**	0.5	1.2
	11.8	12.3	25.1

6. Taxation

The taxation charges for the six months ended 30 June 2018 and 30 June 2017 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

For the six months ended 30 June 2018 the tax credit in respect of exceptional and acquisition related items was $2.1 million (30 June 2017: $0.4 million). For the year ended 31 December 2017 the tax credit in respect of exceptional and acquisition related items was $0.7 million.

7. Earnings per share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of ordinary shares in issue during the period, 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 period and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	US$m	US$m	US$m
Profit from continuing operations attributable to equity shareholders	**34.2**	40.4	80.8
Profit from continuing and discontinued operations attributable to equity shareholders	**34.2**	40.4	80.8

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	Number of shares m	Number of shares m	Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,419.3**	1,398.0	1,399.2
Adjustment for share options and LTIP awards	**12.3**	27.2	27.4
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,431.6**	1,425.2	1,426.6

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	cents	cents	cents
Continuing operations:			
Basic earnings per ordinary share	**2.41**	2.89	5.78
Diluted earnings per ordinary share	**2.39**	2.83	5.67
Continuing and discontinued operations:			
Basic earnings per ordinary share	**2.41**	2.89	5.78
Diluted earnings per ordinary share	**2.39**	2.83	5.67

8. Issued share capital

During the six months ended 30 June 2018 the Company issued 12,961,057 Ordinary Shares of 5p each (six months ended 30 June 2017: 4,830,338; year ended 31 December 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	12,961,057	0.9
At 30 June 2018	**1,426,261,705**	**88.4**

The own shares reserve of $7.1 million at 30 June 2018 (31 December 2017: $7.7 million; 30 June 2017: $8.6 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 30 June 2018 was 17,681,876 (31 December 2017: 19,025,392; 30 June 2017: 21,080,933).

9. Dividends

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	US$m	US$m	US$m
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	11.7
	14.1	11.7	17.8

The directors have declared an ordinary interim dividend per share of 0.50 cents (30 June 2017: 0.44 cents) to be paid on 16 November 2018 to shareholders on the register on 26 October 2018. In line with the requirements of IAS 10 Events after the Reporting Period, these condensed consolidated financial statements do not reflect this interim dividend payable.

10. US environmental matters

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

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

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

10. US environmental matters (continued)

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

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. EPA has invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the upcoming allocation, CC intends to present factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis party. The allocation process is 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. As at 30 June 2018, $5.3 million of this provision had been utilised. The remaining provision at 30 June 2018, taking into account insurance reimbursement, was $10.5 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.

11. Notes to the condensed consolidated cash flow statement

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

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Operating profit	**80.9**	86.5	167.2
Depreciation	**16.0**	15.2	30.9
Amortisation of intangible assets	**3.5**	4.9	11.1
Exceptional and acquisition related items (see note 3)	**19.5**	2.7	6.5
Operating profit before exceptional and acquisition related items, depreciation and amortisation (Adjusted EBITDA)	**119.9**	109.3	215.7
Increase in inventories	**(16.9)**	(25.1)	(14.6)
Increase in debtors	**(47.3)**	(30.4)	(7.2)
Increase in creditors	**14.4**	18.9	15.6
Provision and pension movements	**(29.5)**	(353.2)	(372.8)
Currency and other non-cash movements	**(2.6)**	3.5	6.5
Discontinued operations	**(0.1)**	(0.5)	(0.6)
Net cash inflow/(outflow) from operations	**37.9**	(277.5)	(157.4)

b) Investment income

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Interest and other income	**0.2**	0.2	0.2
Dividends received from joint ventures	**-**	1.1	1.1
	0.2	1.3	1.3

c) Capital expenditure and financial investment

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Acquisition of property, plant and equipment and intangible assets	**(21.2)**	(19.8)	(50.1)
Acquisition of other equity investments	**-**	(0.1)	-
Disposal of property, plant and equipment	**6.2**	0.2	0.4
	(15.0)	(19.7)	(49.7)

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

d) Acquisitions and disposals

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Acquisition of businesses	**(1.7)**	-	(19.9)
Disposal of businesses	**2.8**	-	-
Investment in joint venture	**-**	-	(3.2)
	1.1	-	(23.1)

e) Summary of net debt

	30 June 2018 unaudited US$m	30 June 2017 unaudited US$m	31 December 2017 audited US$m
Cash and cash equivalents	**126.4**	142.2	118.4
Bank overdrafts	**(18.4)**	(4.4)	(1.6)
Net cash and cash equivalents	**108.0**	137.8	116.8
Other borrowings including finance lease obligations	**(378.2)**	(398.3)	(358.3)
Total net debt	**(270.2)**	(260.5)	(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.

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 $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 six months ended 30 June 2018 was $1.2 million (year ended 31 December 2017: $0.2 million).

12. Acquisitions (continued)

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

	Provisional fair value recognised 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
	26.2
Liabilities	
Trade and other payables	(2.5)
Deferred tax liabilities	(2.2)
Total identifiable net assets acquired at fair value	21.5
Goodwill recognised on acquisition (provisional)	0.9
	22.4
Total consideration	22.4

In the provisional accounting, adjustments are made to the book values of the net assets of the company acquired to reflect the provisional fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired is substantially complete. The assessment of the fair values of some items of working capital and deferred tax will be finalised as the integration of the business into the Group continues and will be completed 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 provisional 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 has been made to the book values of land and buildings during the six months ended 30 June 2018. Adjustments to increase trade and other payables by $0.4 million and deferred tax liabilities by $2.2 million have also been during the six months ended 30 June 2018. 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 $0.9 million compared to $4.6 million previously recognised. As a result, comparative amounts as of 31 December 2017 in the condensed consolidated statement of financial position have been restated, with no change in net assets at 31 December 2017.

The provisional 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. Disposal of businesses

During the six months ended 30 June 2018 the Group completed the sale of the non-core lifestyle fabrics business in North America, as announced in February 2018 and the disposals of two small peripheral businesses in the Baltics (as part of the Connecting for Growth Programme).

13. Disposal of businesses (continued)

The net assets disposed were as follows:

	US$m
Inventories	3.1
Trade and other receivables	0.4
Cash and cash equivalents	0.5
Total assets	**4.0**
Trade and other payables	(0.5)
Total liabilities	**(0.5)**
Net assets disposed	**3.5**
Cash consideration received	3.3
Cash consideration receivable	0.2
Profit on disposal	-

14. Discontinued operations and assets held for sale

There were no businesses sold or closed during the six months ended 30 June 2018 and year ended 31 December 2017 reported in the income statement as a discontinued operation. The table below sets out the cash flows from discontinued operations relating to business that were sold or closed in previous years:

	Half year 2018 unaudited US$m	Half year 2017 unaudited US$m	Full year 2017 audited US$m
Net cash outflow from operating activities	**(0.1)**	(0.5)	(0.6)
Net cash flows from discontinued operations	**(0.1)**	(0.5)	(0.6)

Assets held for sale

The non-current assets held for sale are property, plant and equipment of $1.0 million at 30 June 2018 (31 December 2017: $0.2 million, 30 June 2017: $0.2 million).

15. Alternative performance measures

This half year financial report 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.

More information on the Group's alternative performance measures and key performance indicators, including explanations as to why they are used, are set out in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2017.

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

15. Alternative performance measures (continued)

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

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

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

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

Revenue	**Half year 2018 unaudited US$m**	Half year 2017 unaudited US$m	% Growth
Revenue from continuing operations	**788.2**	740.0	7%
Constant currency adjustment	**-**	9.4	
Revenue on a CER basis	**788.2**	749.4	5%
Revenue from acquisitions	**(22.0)**	-	
Organic revenue on a CER basis	**766.2**	749.4	2%

Operating profit	**Half year 2018 unaudited US$m**	Half year 2017 unaudited US$m	% Growth
Operating profit from continuing operations[1]	**80.9**	86.5	(6)%
Exceptional and acquisition related items (note 3)	**19.5**	2.7	
Adjusted operating profit from continuing operations	**100.4**	89.2	13%
Constant currency adjustment	**-**	0.7	
Adjusted operating profit on a CER basis	**100.4**	89.9	12%
Operating profit from acquisitions	**(1.0)**	-	
Organic adjusted operating profit on a CER basis	**99.4**	89.9	11%

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

15. 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 before exceptional and acquisition related items and before depreciation and amortisation (Adjusted EBITDA) for the six months ended 30 June 2018 was $119.9 million (six months ended 30 June 2017: $109.3 million; year ended 31 December 2017: $215.7 million).

Adjusted EBITDA on a last twelve months basis to 30 June 2018 was $226.3 million (30 June 2017: $208.1 million). Adjusted EBITDA on a last twelve months basis to 30 June 2018 of $226.3 million is the adjusted EBITDA for the six months ended 30 June 2018 of $119.9 million plus the adjusted EBITDA for the year ended 31 December 2017 of $215.7 million less the adjusted EBITDA for the six months ended 30 June 2017 of $109.3 million.

Net debt for the Coats operating business at 30 June 2018 was $271.5 million (30 June 2017: $262.6 million, 31 December 2017: $242.0 million).

This gives a leverage ratio of net debt to Adjusted EBITDA of 1.2 (30 June 2017: 1.3, 31 December 2017: 1.1).

Refer to notes 11(a) and 11(e) 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.

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	US$m	US$m	US$m
Profit before taxation	**70.3**	75.8	142.9
Exceptional and acquisition related items (note 3)	**19.5**	2.7	9.1
Net interest on pension scheme assets and liabilities (note 5)	**2.1**	5.1	9.4
Underlying profit before taxation	**91.9**	83.6	161.4
Taxation	**26.0**	27.2	47.8
Tax credit in respect of exceptional and acquisition related items	**2.1**	0.4	0.8
Underlying taxation charge	**28.1**	27.6	48.6
Underlying effective tax rate	**31%**	33%	30%

The taxation charge for the year ended 31 December 2017 included a one-off non-cash tax credit of $3.0 million as a result of the revaluation of 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%.

15. Alternative performance measures (continued)

d) Adjusted earnings per share

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

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	US$m	US$m	US$m
Profit from continuing operations	**44.3**	48.6	95.1
Non-controlling interests	**(10.1)**	(8.2)	(14.3)
Profit from continuing operations attributable to equity shareholders	**34.2**	40.4	80.8
Exceptional and acquisition related items (note 3)	**19.5**	2.7	9.1
Exceptional items attributable to non-controlling interests	**(0.1)**	-	-
Tax credit in respect of exceptional and acquisition related items	**(2.1)**	(0.4)	(0.7)
Adjusted profit from continuing operations	**51.5**	42.7	89.2
Weighted average number of Ordinary Shares	**1,419,303,838**	1,397,982,741	1,399,209,804
Adjusted earnings per share (cents)	**3.63**	3.06	6.37
Adjusted earnings per share (growth %)	**19%**		

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share is the same as that used for basic earnings per Ordinary Share from continuing operations (see note 7).

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 as set out in the condensed 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.

	Half year 2018 unaudited	Half year 2017 unaudited	Full year 2017 audited
	US$m	US$m	US$m
Change in net debt resulting from cash flows (free cash flow)	**(25.8)**	(345.4)	(330.0)
Acquisition of businesses (note 11(d))	**1.7**	-	19.9
Net cash flows from discontinued operations (note 14)	**0.1**	0.5	0.6
Net cash outflow in respect of exceptional reorganisation costs	**12.9**	0.2	0.2
UK Pensions Regulator ('tPR') investigation and pension de-risking costs	**1.1**	2.0	3.5
Payments to UK pension schemes	**11.3**	352.7	373.2
Net cash flows in respect of other exceptional and acquisition related items	**6.8**	1.7	5.8
Receipts from exercise of share options	**(3.0)**	(2.5)	(3.0)
Dividends paid to equity shareholders	**13.3**	11.4	17.6
Tax inflow in respect of adjusted cash flow items	**-**	(0.1)	(0.6)
Adjusted free cash flow	**18.4**	20.5	87.2

Adjusted free cash flow on a last twelve months basis to 30 June 2018 was $85.1 million (30 June 2017: $109.3 million). Adjusted free cash flow on a last twelve months basis which measures the Group's underlying cash generation was $85.1 million to 30 June 2018 and is the adjusted free cash flow for the six months ended 30 June 2018 of $18.4 million plus the adjusted free cash flow for the year ended 31 December 2017 of $87.2 million less the adjusted free cash flow for the six months ended 30 June 2017 of $20.5 million.

15. 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 on a last twelve months' basis divided by period end capital employed as set out below.

	30 June 2018 unaudited US$m	30 June 2017 unaudited US$m	31 December 2017 * audited US$m
Operating profit before exceptional and acquisition related items on a last twelve months' basis	**184.9**	167.6	173.7
Non-current assets			
Acquired intangible assets	**40.6**	39.8	42.8
Property, plant and equipment	**287.0**	268.5	297.3
Trade and other receivables	**22.4**	17.6	21.5
Current assets			
Inventories	**236.5**	235.4	232.2
Trade and other receivables	**304.1**	280.7	268.9
Current liabilities			
Trade and other payables	**(331.2)**	(324.7)	(330.4)
Non-current liabilities			
Trade and other payables	**(30.2)**	(17.1)	(27.2)
Capital employed	**529.2**	500.2	505.1
ROCE	**35%**	34%	34%

* Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 12). ROCE at 31 December 2017 previously reported was 35%.

16. Fair value of assets and liabilities

As at 30 June 2018 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

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

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

16. Fair value of assets and liabilities (continued)

Financial assets measured at fair value

30 June 2018	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Forward foreign exchange contracts	**2.0**	**-**	**2.0**	**-**
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swap contracts	**1.9**	**-**	**1.9**	**-**
Financial assets measured at fair value through the statement of other comprehensive income:				
Equity investments	**1.1**	-	-	**1.1**
Total	**5.0**	-	**3.9**	**1.1**

30 June 2017	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Forward foreign exchange contracts	1.8	-	1.8	-
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swap contracts	0.3	-	0.3	-
Financial assets measured at fair value through the statement of other comprehensive income:				
Equity investments	1.4	-	-	1.4
Total	3.5	-	2.1	1.4

31 December 2017	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Forward foreign currency contracts	1.9	-	1.9	-
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swap contracts	1.1	-	1.1	-
Financial assets measured at fair value through the statement of other comprehensive income:				
Equity investments	1.4	-	-	1.4
Total	4.4	-	3.0	1.4

16. Fair value of assets and liabilities (continued)

Financial liabilities measured at fair value

30 June 2018	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Forward foreign currency contracts	**2.4**	-	**2.4**	-
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swap contracts	**5.7**	**-**	**5.7**	**-**
Total	**8.1**	-	**8.1**	-

30 June 2017	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Forward foreign currency contracts	1.9	-	1.9	-
Total	1.9	-	1.9	-

31 December 2017	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Forward foreign currency contracts	1.5	-	1.5	-
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swap contracts	1.6	-	1.6	-
Total	3.1	-	3.1	-

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

17. Principal risks and uncertainties

The principal risks and uncertainties which may have an impact on the Group's operations, performance or future prospects remain those detailed in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2017. These principal risks and uncertainties are as follows:

Risks to strategy delivery

- Connecting for Growth programme
- Customer and end user expectations
- Appropriate capability development

External risks

- Cyber risk
- Economic risk
- Environmental non-performance risk

Operational risks

- Product and services liability risk
- Bribery and anti-competitive behaviour risk

Material legacy risks

- Pension scheme deficit funding
- Legacy environmental risks

More information on these principal risks and uncertainties together with an explanation of the Group's approach to risk management is set out in Coats Group plc's Annual Report and Accounts for the year ended 31 December 2017 on pages 23 to 25, a copy of which is available on the Group's website, www.coats.com.

18. Seasonality

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

19. Related party transactions

There have been no related party transactions or changes in related party transactions described in the 2017 Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

20. Directors

The following persons were directors of Coats Group plc during the half year ended 30 June 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

21. Publication

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

DIRECTORS' RESPONSIBILITIES STATEMENT

We confirm that to the best of our knowledge:

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

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

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

The Directors of Coats Group plc are listed in Note 20 to the Condensed Consolidated Financial Statements.

By order of the Board,

M Clasper
Chairman
31 July 2018

United Kingdom

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Registered in England and Wales No. 103548