1 August 2019

Coats Group plc

2019 Half Year Results

Coats Group plc ('Coats', the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, announces its unaudited results for the six months ended 30 June 2019.

Continuing operations [3]	H1 2019	H1 2018 (restated [4])	Change	Organic CER change [1]
Revenue	$705m	$725m	(3)%	2%
Adjusted [1]				
Operating profit	$102m	$99m	3%	8%
Operating margin	14.5%	13.7%	80bps	80bps
Basic earnings per share	3.4c	3.5c	(4)%	
Free cash flow (6 months) [5]	$21m	$17m	24%	
Return on capital employed (ROCE)	40%	38%	200bps	
Reported [2,3]				
Operating profit	$101m	$80m	27%	
Basic earnings per share	3.4c	2.3c	47%	
Net cash generated by operating activities	$34m	$4m	n/a	
Dividend per share (interim)	0.55c	0.50c	10%	

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

'I am pleased to report a robust performance in the first half despite mixed conditions in underlying retail and industrial markets. Our market-leading Apparel and Footwear thread business benefited from our continued focus on product innovation, digital solutions as well as our leading corporate responsibility and sustainability credentials. In our Performance Materials business, we saw strong growth in some emerging markets and key strategic focus areas, and an acceleration in the performance of recent acquisitions.

'Our improved operating margins, strong cash flow generation and underlying earnings growth reflect continued cost control and the benefits of Connecting for Growth. This programme is now mostly complete and will conclude this year. The savings achieved have funded reinvestments in the areas of innovation, digital and talent, which will benefit us in the future. We will also continue to invest capital in both value-adding organic and inorganic opportunities across our global network. As a reflection of our confidence in the future direction of the business we have announced a 10% increase in the interim dividend.

'In the second half of the year we will continue to drive performance through our focus on customer service and building on our innovation and digital capabilities, supported by our self-help initiatives. Our full year earnings per share will be impacted by the highlighted foreign exchange movements, IFRS16 changes and certain legacy interest charges. However, whilst we remain mindful of current macroeconomic uncertainties, we anticipate delivering 2019 full year adjusted operating profit in line with our expectations.'

Financial highlights

- Revenue growth of 2% on an organic CER basis in line with May trading update; 3% decline on a reported basis as a result of anticipated H1 weighted foreign exchange translation headwinds.
- Apparel & Footwear revenue growth of 1% (2% growth excluding portfolio rationalisation actions e.g. tail markets); Performance Materials revenue up 4% driven by strong growth in strategic focus areas of Telecoms and Energy and Personal Protection.
- Adjusted operating profit up 8% (up 3% on a reported basis) with Connecting for Growth programme delivering a full period of benefits and focus on operational efficiencies, offsetting some gross margin decline; adjusted operating margin up 80bps to 14.5%.
- Adjusted EPS down 4% to 3.4 cents; excluding temporary mark-to-market foreign exchange impacts, the initial impact of IFRS16 (leases), and legacy interest charges in the period EPS growth was 4%.
- Adjusted free cash flow for the period of $21 million up 24% supported by a strong Balance Sheet.
- Strong progression in reported operating profit to $101 million (up 27%) and basic EPS of 3.4 cents (up 47%), reflecting continued strategic progress and minimal net exceptional costs in the period compared to H1 2018.

Strategic highlights

- Sale of non-core North America Crafts business and acquisition of Threadsol; both completed in February 2019.
- Connecting for Growth programme continues to progress well and reorganisation activities now mostly complete; remaining incremental savings and reinvestments on track.
- Significant positive progress in strategic focus areas of digital (e.g. factory automation and commercial launch of Twine Solutions) and innovation; two further Innovation Centres in Turkey and China opened in H1 2019.
- Launch of our inaugural Sustainability Report, and hosted a dedicated ESG Investor Event in London.

1 *All Non-statutory measures (Alternative Performance Measures) are reconciled to the nearest corresponding statutory measure in note 14. Organic constant exchange rate (CER) figures are 2018 restated at 2019 exchange rates and excluding contributions from bolt-on acquisitions. Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.*
2 *Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.*
3 *All figures on a continuing basis (i.e. exclude North America Crafts which is presented as a discontinued operation), unless otherwise stated.*
4 *Restated to include only continuing results following NA Crafts disposal and to reflect the adoption of IFRS15.*
5 *As noted in the H1 2018 results, adjusted Free Cash Flow is now shown in the highlights table for the 6 month period rather than on a last 12 months basis (last 12 months adjusted free cash flow at June 2019: $100 million).*

Conference call

Coats Management will discuss this report in a webcast / conference call with analysts and investors at 0900 BST today (1 August 2019). The webcast can be accessed via www.coats.com/investors/hy2019. The conference call can be accessed by dialling +44 (0)20 3936 2999 and using participant access code '74 38 27'. The webcast will also be made available in archive form on www.coats.com.

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About Coats Group plc

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

Operating review

	H1 2019	H1 2018 (restated [5])	Inc / (dec)	H1 2018 CER [1]	CER [1] inc/(dec)	Organic [1] inc/(dec)
	$m	$m	%	$m	%	%
Revenue [2]						
By segment						
Apparel and Footwear [3]	539	558	**(3)%**	533	**1%**	**1%**
Performance Materials	165	167	**(1)%**	159	**4%**	**4%**
Total	**705**	**725**	**(3)%**	**692**	**2%**	**2%**
By region						
Asia	395	394	0%	383	3%	3%
Americas [3]	167	182	(8)%	177	(6)%	(6)%
EMEA	142	148	(4)%	133	7%	7%
Total	**705**	**725**	**(3)%**	**692**	**2%**	**2%**
Adjusted operating profit [2,4]						
By segment						
Apparel and Footwear [3]	79	76	5%	73	8%	9%
Performance Materials	23	23	(3)%	22	4%	4%
Total	**102**	**99**	**3%**	**95**	**7%**	**8%**
Adjusted operating margin [2,4]						
By segment						
Apparel and Footwear [3]	14.7%	13.6%	110bps	13.7%	100bps	110bps
Performance Materials	13.7%	14.0%	(30)bps	13.7%	0bps	0bps
Total	**14.5%**	**13.7%**	**80bps**	**13.7%**	**80bps**	**80bps**

1 *2018 figures at 2019 exchange rates. Organic on a CER basis excluding contributions from bolt-on acquisitions.*
2 *Includes contribution from bolt-on acquisitions made during the period.*
3 *Now includes Latin America Crafts in H1 2018.*
4 *On an adjusted basis which excludes exceptional and acquisition-related items.*
5 *Restated to include continuing results following NA Crafts disposal and to reflect the adoption of IFRS 15.*

Group revenues in the first half of the year increased 2% on an organic and CER basis. On a reported basis, Group revenues reduced 3% as a result of the previously flagged year-on-year currency translation headwinds (notably Indian Rupee, Turkish Lira and Brazilian Real). Based on current FX rates, the H2 2019 translation impact is expected to be broadly neutral.

Apparel and Footwear (A&F)

In A&F, our core thread business continued its resilient growth (up 3%) despite underlying global retail markets remaining mixed. The ongoing robust performance in thread sales was underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility and sustainability credentials. The headline A&F growth of 1% was impacted by marginally slower demand for zips due to certain in-year fashion trends (down 1% year-on-year), ongoing difficult trading conditions in Latin America as well as the impact of tail market exits (part of the Connecting for Growth programme) and customer / product portfolio rationalisation actions. Excluding the impact of these tail market exits and portfolio rationalisation actions, A&F growth would have been 2% in the period.

Coats' ability to perform resiliently in mixed retail market conditions was assisted by several factors including deepening its relationships with retailers and brand owners through its global accounts programme, and with manufacturers, through the increasing adoption of digital services and software solutions. This was demonstrated by a 17% organic increase in Coats Global Services' revenues in the period, and the successful launch of the Twine Solutions digital thread printing machine in June 2019. In addition, revenue growth was supported by innovation in areas such as recycled threads and zips, the launch of sustainable thread products (cotton and PFC-free) and lattice footwear composites. Our innovation credentials across A&F and

Performance Materials have been further enhanced by the opening of two more global Innovation Hubs in Turkey and China, following the opening of the first hub in North Carolina in H2 last year. These facilities provide opportunities to collaborate with our customers and brands, and work with them to create innovative new product solutions to meet their specific design needs, and drive incremental new product sales.

Performance Materials

Performance Materials revenues grew 4% in the period on an organic CER basis (1% decline reported) which was consistent across the first half of the year as revenues continued to be impacted by the phasing of certain customer programmes. We continued to see strong growth in many emerging markets (in particular within EMEA), and accelerated performance in our acquisitions (Gotex and Patrick Yarns) as we look to drive geographic expansion of existing products across the Coats portfolio, and leverage Coats' global customer base.

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

Growth in our key strategic focus areas remained on track with 27% growth in Telecoms and Energy, and 8% growth in Personal Protection, whilst Transportation revenues were broadly flat in the period largely due to the slowdown in global automotive production. Household and Recreation related products showed a decline of 5% (which included the ongoing low-sew bedding trend in the US), and Other Industrial Application revenues saw a decline in the period, as general demand in North America remained relatively muted.

Geographical performance

By geography, we saw resilient revenue growth in Asia (up 3% on a CER basis) which was underpinned by Apparel and Footwear growth (as key markets continued to perform well), and despite a slowdown in the smaller Performance Materials segment in that territory (partly due to softness in the China automotive market). Revenues in EMEA rose encouragingly by 7%, and was driven by Performance Materials (Telecoms and Energy) as Gotex delivered a strong period of growth, alongside steady and consistent growth in Apparel and Footwear. In the Americas, revenues decreased 6%, where the US consumer durables market remained relatively soft alongside continued decline in Apparel and Footwear revenues in Latam which saw difficult trading conditions (in particular Brazil and Argentina). This was offset to some extent by an encouraging performance in certain Latam Performance Materials markets (e.g. Brazil and Mexico) and Patrick Yarns.

Operating profit

At a Group level, adjusted operating profit increased 8% to $102 million on an organic CER basis (2018: $95 million) and operating margins were up 80 bps to 14.5% (2018: 13.7%). Year-on-year productivity and procurement initiatives continued to broadly offset structural inflation (e.g. wages and energy). The anticipated continued raw material cost inflation incurred during the period (partly linked to oil price) was recovered in full. Despite this inflation pass through, gross margin percentage was impacted by the negative manufacturing variances arising from lower activity levels in certain territories (predominantly Americas). Operating margin progression was driven by continued cost control and the incremental year-on-year benefits from the Connecting for Growth programme.

On a reported basis, Group operating profit (which is after exceptional and acquisition-related items) increased 27% to $101 million (2018: $80 million), primarily due to minimal net exceptional and acquisition related items in the period when compared to the same period in 2018 where the initial Connecting for Growth reorganisation cost was incurred. Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to below is on an adjusted basis only.

Revised segmental reporting

As referenced in the FY18 results announcement on 1 March 2019, following the sale of North America Crafts which was completed on 20 February 2019, we have conducted a review of future segmental reporting options. The Group will now report two operating segments, Apparel & Footwear and Performance Materials. This segmentation reflects the distinct difference in strategies between these two segments, the differing customer / end-use market profiles, and as a result the internal management structure of each segment.

A process was subsequently undertaken to allocate profitability between these segments (given many shared operations), which are reported for the first time within these results. Assets and liabilities are not currently allocated between segments but instead managed collectively by each business unit.

Historical analysis for A&F and Performance Materials shows that these operating segments generate broadly similar operating margins, with H1 2018 A&F margins of 13.6% and Performance Materials margins of 14.0% (Group operating margins 13.7%). Full year 2018 operating margins for the two operating segments showed a similar profile to the H1 2018 comparators, with operating margins of 13.7% in A&F and 14.1% in Performance Materials (Group operating margins 13.8%).

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

In the first half of 2019, we have seen strong progression in A&F operating margins (100bps) on a CER basis, largely due to the reasons set out above which explain the movement in Group operating margins. Performance Materials margins were flat in the period on a CER basis. This is predominantly due to bad debt and inventory write-downs (in total c.$1 million) and operating costs for our innovation centres which have been opened in the last 12 months.

Connecting for Growth programme

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

Good progress continues to be made in the first half of 2019 and the majority of the programme reorganisation actions are now complete (the programme is now scheduled to conclude this year) with the new operating structures being embedded successfully within the organisation. Reinvestment projects, resulting from the programme savings, are progressing well in the areas of digital (e.g. retro fitting data sensors to existing factory machines to stream live data and generate productivity insights), innovation (e.g. two new innovation hubs opened in H1), and appropriate talent acquisition. These will all support the ongoing strategy delivery of the Group and our next phase of growth.

Cumulative net benefits for the programme to date now stand at $14 million; reflecting the increased run-rate of gross savings this year along with the planned increased reinvestments spend to embed the innovation, digitisation and people strategies which are an integral part of the programme. As such, incremental year-on-year net benefits (after reinvestments) of $10 million have been realised in adjusted operating profit in H1 2019 which reflects the incremental run rate of net savings following the launch of the programme in H1 2018 (net benefits at 30 June 2018: $4 million).

Cumulative programme net benefits are expected to be in the region of $25 million by the end of 2019 (2018 full year: $15 million) as we continue to make our planned reinvestments.

$24 million of the anticipated $30 million total exceptional reorganisation charge has now been incurred ($23 million in 2018).

Discontinued operations - sale of North America Crafts

As announced on 22 January 2019, we agreed to sell the non-core North America Crafts business to Spinrite Acquisition Corp, a leading provider of craft products in North America. This transaction was subsequently completed on 20 February 2019. The headline acquisition proceeds were $37 million, which was on a debt and cash free basis, and is subject to an adjustment for the level of net working capital as at the time of completion ($35 million received at completion).

The sale of our standalone North America Crafts business allows the Group to focus completely on the business-to-business global Apparel and Footwear, and Performance Materials businesses. The sale proceeds have initially been used to reduce Group net debt, and will subsequently be used to fund further value accretive bolt-on acquisitions.

In 2018 the North America Crafts business generated full year sales of $128 million (H1: $62 million) and an operating profit (pre an allocation of corporate costs) of $3 million (H1: $1 million). North America Crafts results, which include the results of the smaller lifestyles fabrics business, are reported as discontinued operations in the Group financial results (H1 comparators have been restated accordingly).

Dividend

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

The Board has declared an ordinary interim dividend per share of 0.55c, which reflects 10% year-on-year growth (2018: 0.50c), to be paid on 15 November 2019 (payment date) to shareholders on the register on 25 October 2019 (record date), with an ex-date of 24 October 2019. The proposed full year dividend will be announced in March 2020 alongside the Full Year 2019 results.

Outlook

In the second half of the year we will continue to drive performance through our focus on customer service and building on our innovation and digital capabilities, supported by our self-help initiatives. Our full year earnings per share will be impacted by the highlighted foreign exchange movements, IFRS16 changes and certain legacy interest charges. However, whilst we remain mindful of current macroeconomic uncertainties, we anticipate delivering 2019 full year adjusted operating profit in line with our expectations.

Financial Review

Adjusted operating profit from continuing operations increased 8% to $102 million on an organic CER basis (2018: $95 million) and operating margins were up 80 bps to 14.5% (2018: 13.7%). On a reported basis, operating profit (which is after exceptional and acquisition related items) increased 27% to $101 million, as a result of the increase in adjusted operating profit, along with the significant reduction in net exceptional and acquisition-related items in the period when compared to the same period in 2018 (where the initial Connecting for Growth reorganisation cost was incurred).

Financials on a reported basis were impacted by the relative strength of the US Dollar compared to the first half of 2018 where we saw FX tailwinds. This has resulted in 3% decline in reported revenues year on year (vs a 2% growth on a CER basis), and 3% growth in adjusted operating profit (vs a 7% growth on a CER basis). As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. The main currency impact during the period was the strengthening US Dollar against the Indian Rupee, Turkish Lira and Brazilian Real. As reported previously, we anticipate this FX headwind to be weighted to H1 2019, and at current exchange rates we expect broadly neutral translation impact in H2.

Adjusted earnings per share ('EPS') for the period decreased 4% to 3.4 cents (2018: 3.5 cents) due to certain foreign exchange impacts, which include the H1 weighted translation headwinds on adjusted operating profit and a MTM foreign exchange loss on future hedging contracts (vs a marginal loss in 2018), along with an increase in interest costs (including the initial impact of IFRS16 leases). These impacts more than offset the impact of higher adjusted operating profits (3% reported growth), and a 100bps reduction in underlying effective tax rate to 30%. Excluding the impact of the MTM losses booked in the period, the initial impact of IFRS16 (leases), and certain legacy items that impacted the interest charge, underlying adjusted EPS growth was 4%.

On a reported basis, the Group generated an attributable profit from continuing operations of $49 million compared to $33 million in the first half of 2018. The increase primarily being due to minimal net exceptional and acquisition related items in the period when compared to H1 2018 where the initial Connecting for Growth reorganisation cost was incurred.

The Group delivered an adjusted free cash flow of $21 million in the first half of 2019 (2018: $17 million) which reflects the adjusted operating profit growth, normal but well controlled levels of working capital outflows in H1 (reflecting the typical seasonality of the business and in line with H1 2018), whilst continuing to invest capital expenditure in line with our full year expectations.

Return on capital employed (ROCE) improved 200bps to 40%, due to higher adjusted operating profits from continuing operations and controlled working capital.

Non-operating results

Net finance costs in the period were $17.4 million (pre-exceptional), a significant increase from $10.5 million in 2018. The key drivers of the increase in net finance costs in the period was a $2.4 million MTM foreign exchange loss (June 2018: $0.4m loss) which largely relates to the recent depreciation of Sterling and the impact on UK pension deficit recovery payment hedges. In addition, there was a $0.7 million increase in the IAS19 pensions finance charge, a $1.8 million impact following the initial adoption of IFRS 16 (see below), and the impact of certain legacy charges in Brazil/China that were booked in the period ($1.7 million).

The taxation charge for H1 2018 was $25.8 million (H1 2018: $26.0 million) resulting in a reported tax rate of 30% (H1 2018: 38%). Excluding exceptional and acquisition-related items and the impact of IAS19 finance charges, the underlying effective tax rate on pre-tax profits reduced 100 bps to 30% (H1 2018: 31%). This was driven by a reduction in withholding taxes, together with a favourable change in profit mix for the period.

Profit attributable to minority interests was broadly in line with 2018 at $10.4 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 was a credit of $0.3 million in the period and were significantly reduced year-on-year (2018: $19.5 million) due to the weighting of the exceptional reorganisation charge from the Connecting for Growth programme in H1 2018. The exceptional C4G reorganisation charge in this period was $3 million ($1.4 million net of the profit on the sale of a property as part of the C4G programme), and was offset by a $4 million credit in relation to a significant historical legacy tax claim in Brazil (includes the operating profit impact and associated historical interest recovery).

Acquisition-related items in the period were $2.6 million (2018: $3.7 million) which consisted of the amortisation of intangible assets acquired ($1.4 million), and contingent consideration ($1.2 million).

Discontinued operations
In addition to the above exceptional and acquisition-related items, and as referred to earlier, as a result of the disposal of the non-core North American Crafts business (completed on 20 February 2019) an exceptional loss on disposal of $18.4 million was incurred in the 2018 full year results. This relates to a partial write-down of operating assets to the level of sales proceeds, as well as the costs incurred to complete the transaction. The 2019 loss from discontinued operations of $2.9 million relate to trading losses in the North America Crafts business prior to the disposal completion date ($1.2 million) and remaining losses on disposal of $1.7 million (net of pension curtailment gains and a legacy property sale).

Investment
Capital expenditure in the year, in addition to ongoing maintenance requirements, related to new product development (e.g. development of our two further global innovation hubs in Turkey and China), process improvements, digital tools, capacity expansion, health and safety, and environmental spend (e.g. a new effluent treatment plant in Mexico). These help to ensure that Coats maintains its strong corporate responsibility credentials and ethical reputation in the industry as well as benefiting the local communities that we do business in. Total capital spend for the period amounted to $22 million (1.2x depreciation and amortisation).

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

Cash flow
The Group generated $21 million of adjusted free cash flow in the first half of 2019. This was a 24% increase on H1 2018 ($17 million) due to the increase in adjusted operating profit and controlled net working capital, alongside continued capital expenditure ($22 million). 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. On a last twelve months basis, the Group generated $100 million of adjusted free cash flow, which represented strong growth on the 2018 LTM comparative period ($73 million).

Adjusted EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) from continuing operations for the period was $120 million (2018: $118 million). Net working capital outflow in the period was $41 million which was in line with 2018 (H1 2018: $42 million) and reflects the usual seasonality of cash flows in the business as working capital continues to be effectively controlled. Interest paid was $8 million and in line with 2018.

Tax paid was $27 million, a marginal increase ($1 million) from the same period of 2018. A payment of $1.9 million was made in the first half of 2019 which relates to the settlement of a tax liability incurred by our disposed US Crafts business. Excluding the impact of this discontinued payment, there has been a reduction of $0.9 million from the same period of 2018. This reduction is primarily driven by cash tax benefits which arose on 2018 exceptional items crystallising in H1 2019, together with a favourable change in profit mix for the period.

On a non-adjusted basis, there was a free cash inflow of $12 million in the period, as the adjusted free cash inflow of $21 million and the proceeds of the North American Crafts disposal ($30 million; net of pre disposal operating cash outflows and transaction costs), were offset by UK pension payments ($12 million), shareholder dividends ($16 million) and exceptional and acquisition related items ($7 million).

Net debt (excluding the impact of IFRS16) as at 30 June 2019 was $210 million, $13 million below 31 December 2018 ($223 million), which primarily reflects the $12 million free cash inflow in the period.

Balance sheet
An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA (excluding the impact of IFRS16 – see below), which improved to 0.9x adjusted EBITDA (from continuing operations for the last 12 months) at 30 June 2019 (1.2x at 30 June 2018), and is slightly below the lower end of the 1-2x stated target leverage range. The recent sale of the North America Crafts business further supports our strong

balance sheet and will enable us to invest in our business organically, self-finance further bolt-on acquisitions, as well as meet our other key capital demands of funding our pension schemes and making returns to shareholders.

IFRS16 (leases)
Following the release of IFRS 16, which is effective for accounting periods beginning on or after 1 January 2019, the Group has reviewed and updated its accounting treatment for leases. The primary impact of this new standard for Coats is the requirement to use a single model for lessees which recognises a right of use asset and lease liability for all leases, and as such a removal of the distinction between finance and operating leases.

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

The notable P/L impacts on the 2019 half year financial results has been to see a net increase to adjusted operating profits (due to the replacement of operating lease charges offset by depreciation on the newly recognised assets) of $1 million, and an increase to the interest charge of $1.8 million reflecting the newly reflected lease liability. Overall, the impact on profit before tax of this change was therefore an adverse $0.8 million in the period, and we anticipate a similar pro-rata impact to be seen for the full year in 2019.

In relation to the Balance Sheet, the newly recognised assets (previously operating leases) at 30 June 2019 amount to $58 million, with an associated lease liability of $58 million. Net debt, including this lease liability at 30 June 2019 was $269 million. For financial covenant purposes, our leverage remains calculated on the basis without the impact of IFRS16 (0.9x at 30 June 2019).

Pensions and other post-employment benefits
The net obligation for the Group's retirement and other post-employment defined benefit liabilities (UK and other group schemes), on an IAS19 financial reporting basis, was $170 million as at 30 June 2019, which is in line with 31 December 2018 ($168 million).

The Group's UK defined benefit schemes, namely the Coats UK Pension Scheme, shows a $101 million IAS19 deficit at 30 June 2019 (£80 million), which is marginally lower than at 31 December 2018 ($109 million, £85 million). The small movement in the period of $8 million broadly consisted of strong asset outperformance, being offset by the impact of changes in actuarial assumptions (primarily lower discount rate).

Following the disposal of North America Crafts, Coats retains the previously incurred pension obligations from the business. The pension scheme was in a surplus position of $65 million at 30 June 2019 of which a recoverable surplus of $36 million is recognised on the Balance Sheet. This recoverable surplus has reduced from $48 million at 31 December 2018 as a result of fewer serving employees in the US remaining in the Group following disposal.

UK pension triennial valuation

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

The Group has agreed ongoing annual deficit recovery payments of £20 million ($25 million) per annum increasing annually by the increase in the Retail Price Index (first increase in January 2020) based on a Technical Provisions deficit of £252 million ($320 million). The latest Technical Provisions deficit is significantly lower than the last triennial valuation deficit (31 March 2015) of £582 million ($739 million) due to upfront lump-sum payments into the scheme of £329 million ($418 million), the ongoing deficit recovery payments, with some offset from other valuation factors (primarily as a consequence of a reduction in real UK discount rates since March 2015).

As before, the Group will also meet Scheme administrative expenses and levies estimated at £4 million ($5 million) per annum in the future (i.e. total ongoing payments of £24 million ($30 million) per annum). The new deficit recovery payments will be effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous three UK schemes.

The previously agreed level of deficit recovery contributions was £17.5 million ($22 million), including estimated administration expenses and levies. As a result of the timing of the start of the new contributions, 2019 deficit recovery contributions, including estimated administration expenses and levies, are anticipated to be £22 million ($28 million). Deficit recovery contributions (including administrative expenses and levies) in the first half of 2019 were $12 million (2018: $11 million).

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

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 2019 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the 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 2019 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
1 August 2019

Condensed consolidated financial statements

Condensed consolidated income statement
For the half year ended 30 June 2019

	Note	Half year 2019 Before exceptional and acquisition related items unaudited US$m	Half year 2019 Exceptional and acquisition related items (note 3) unaudited US$m	Half year 2019 Total unaudited US$m	Half year 2018* Before exceptional and acquisition related items unaudited US$m	Half year 2018* Exceptional and acquisition related items (note 3) unaudited US$m	Half year 2018* Total unaudited US$m	Full year 2018 Total audited US$m
Continuing operations								
Revenue		**704.6**	**-**	**704.6**	724.6	-	724.6	1,414.7
Cost of sales		**(454.4)**	**2.6**	**(451.8)**	(459.3)	(3.8)	(463.1)	(906.3)
Gross profit		**250.2**	**2.6**	**252.8**	265.3	(3.8)	261.5	508.4
Distribution costs		**(66.2)**	**(0.8)**	**(67.0)**	(74.5)	(3.9)	(78.4)	(147.2)
Administrative expenses		**(82.0)**	**(4.4)**	**(86.4)**	(91.8)	(11.8)	(103.6)	(214.9)
Other operating income		**-**	**1.4**	**1.4**	0.1	-	0.1	0.8
Operating profit		**102.0**	**(1.2)**	**100.8**	99.1	(19.5)	79.6	147.1
Share of profits/(losses) of joint ventures		**0.5**	**-**	**0.5**	(0.1)	-	(0.1)	0.1
Finance income	**4**	**0.9**	**1.5**	**2.4**	1.3	-	1.3	1.7
Finance costs	**5**	**(18.3)**	**-**	**(18.3)**	(11.8)	-	(11.8)	(26.1)
Profit before taxation		**85.1**	**0.3**	**85.4**	88.5	(19.5)	69.0	122.8
Taxation	**6**	**(25.9)**	**0.1**	**(25.8)**	(28.1)	2.1	(26.0)	(49.0)
Profit from continuing operations		**59.2**	**0.4**	**59.6**	60.4	(17.4)	43.0	73.8
(Loss)/profit from discontinued operations	**13**	**(1.2)**	**(1.7)**	**(2.9)**	1.3	-	1.3	(15.6)
Profit for the period		**58.0**	**(1.3)**	**56.7**	61.7	(17.4)	44.3	58.2
Attributable to:								
Equity shareholders of the company		**47.6**	**(1.3)**	**46.3**	51.5	(17.3)	34.2	39.2
Non-controlling interests		**10.4**	**-**	**10.4**	10.2	(0.1)	10.1	19.0
		58.0	**(1.3)**	**56.7**	61.7	(17.4)	44.3	58.2
Earnings per share (cents)	**7**							
Continuing operations:								
Basic				**3.41**			2.32	3.85
Diluted				**3.39**			2.30	3.78
Continuing and discontinued operations:								
Basic				**3.21**			2.41	2.76
Diluted				**3.19**			2.39	2.70
Adjusted earnings per share	**14 (d)**	**3.37**			3.53			6.87

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

Condensed consolidated statement of comprehensive income
For the half year ended 30 June 2019

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Profit for the period	**56.7**	44.3	58.2
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains in respect of retirement benefit schemes	**(11.1)**	98.6	(21.8)
Tax relating to items that will not be reclassified	**2.4**	-	1.2
	(8.7)	98.6	(20.6)
Items that may be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges arising during the period	**4.8**	(2.9)	(1.0)
Transferred to profit or loss on cash flow hedges	**(0.2)**	(0.4)	(0.6)
Exchange differences on translation of foreign operations	**(0.3)**	(23.6)	(20.5)
	4.3	(26.9)	(22.1)
Other comprehensive income and expense for the period	**(4.4)**	71.7	(42.7)
Net comprehensive income and expense for the period	**52.3**	116.0	15.5
Attributable to:			
Equity shareholders of the company	**42.1**	106.3	(2.7)
Non-controlling interests	**10.2**	9.7	18.2
	52.3	116.0	15.5

Condensed consolidated statement of financial position
At 30 June 2019

	Note	30 June 2019 unaudited US$m	30 June 2018* unaudited US$m	31 December 2018 audited US$m
Non-current assets				
Intangible assets		**293.2**	287.7	284.2
Property, plant and equipment		**275.2**	287.0	282.2
Right-of-use assets		**57.7**	-	-
Investments in joint ventures		**11.1**	11.9	10.6
Other equity investments		**6.1**	1.1	6.1
Deferred tax assets		**21.3**	22.3	19.2
Pension surpluses		**31.6**	83.8	42.6
Trade and other receivables		**16.7**	22.4	21.4
		712.9	716.2	666.3
Current assets				
Inventories		**197.4**	236.5	185.4
Trade and other receivables		**287.2**	304.1	253.8
Other investments		**0.2**	-	0.6
Pension surpluses		**4.8**	6.9	6.1
Cash and cash equivalents	**11 (f)**	**124.1**	126.4	135.7
Assets of disposal group and non-current assets classified as held for sale	**13**	**0.3**	1.0	51.4
		614.0	674.9	633.0
Total assets		**1,326.9**	1,391.1	1,299.3
Current liabilities				
Trade and other payables		**(300.0)**	(331.2)	(302.7)
Current income tax liabilities		**(13.7)**	(9.8)	(15.5)
Bank overdrafts and other borrowings		**(6.6)**	(18.5)	(20.3)
Lease liabilities		**(13.0)**	-	-
Retirement benefit obligations:				
- Funded schemes		**(25.9)**	(16.5)	(16.0)
- Unfunded schemes		**(5.9)**	(7.1)	(6.0)
Provisions		**(13.1)**	(15.5)	(16.3)
Liabilities of disposal group classified as held for sale	**13**	**-**	-	(17.9)
		(378.2)	(398.6)	(394.7)
Net current assets		**235.8**	276.3	238.3
Non-current liabilities				
Trade and other payables		**(20.7)**	(30.2)	(23.1)
Deferred tax liabilities		**(13.6)**	(18.1)	(10.5)
Borrowings		**(327.8)**	(378.1)	(338.1)
Lease liabilities		**(45.8)**	-	-
Retirement benefit obligations:				
- Funded schemes		**(82.3)**	(22.6)	(99.5)
- Unfunded schemes		**(92.2)**	(99.4)	(95.5)
Provisions		**(36.5)**	(32.4)	(39.0)
		(618.9)	(580.8)	(605.7)
Total liabilities		**(997.1)**	(979.4)	(1,000.4)
Net assets		**329.8**	411.7	298.9
Equity				
Share capital	**8**	**89.5**	88.4	88.5
Share premium account		**10.5**	10.4	10.4
Own shares	**8**	**(5.7)**	(7.1)	(6.8)
Translation reserve		**(68.6)**	(72.0)	(68.5)
Capital reduction reserve		**59.8**	59.8	59.8
Other reserves		**248.8**	242.5	244.2
Retained (loss)/earnings		**(35.2)**	61.4	(56.7)
Equity shareholders' funds		**299.1**	383.4	270.9
Non-controlling interests		**30.7**	28.3	28.0
Total equity		**329.8**	411.7	298.9

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

Condensed consolidated statement of changes in equity
For the half year ended 30 June 2019

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained (loss)/ earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2018	87.5	7.7	(7.7)	(48.8)	59.8	245.8	(58.6)	285.7	24.6	310.3
Profit for the period	-	-	-	-	-	-	34.2	34.2	10.1	44.3
Net comprehensive income and expense for the period	-	-	-	(23.2)	-	(3.3)	98.6	72.1	(0.4)	71.7
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

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained (loss)/ earnings US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2018	87.5	7.7	(7.7)	(48.8)	59.8	245.8	(58.6)	285.7	24.6	310.3
Profit for the year	-	-	-	-	-	-	39.2	39.2	19.0	58.2
Net comprehensive income and expense for the year	-	-	-	(19.7)	-	(1.6)	(20.6)	(41.9)	(0.8)	(42.7)
Dividends	-	-	-	-	-	-	(21.1)	(21.1)	(14.8)	(35.9)
Issue of ordinary shares	1.0	2.7	-	-	-	-	(0.7)	3.0	-	3.0
Movement in own shares	-	-	0.9	-	-	-	-	0.9	-	0.9
Share based payments	-	-	-	-	-	-	7.4	7.4	-	7.4
Deferred tax on share schemes	-	-	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Balance as at 31 December 2018	**88.5**	**10.4**	**(6.8)**	**(68.5)**	**59.8**	**244.2**	**(56.7)**	**270.9**	**28.0**	**298.9**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**46.3**	**46.3**	**10.4**	**56.7**
Net comprehensive income and expense for the period	**-**	**-**	**-**	**(0.1)**	**-**	**4.6**	**(8.7)**	**(4.2)**	**(0.2)**	**(4.4)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(16.6)**	**(16.6)**	**(7.5)**	**(24.1)**
Issue of ordinary shares	**1.0**	**0.1**	**-**	**-**	**-**	**-**	**(1.0)**	**0.1**	**-**	**0.1**
Movement in own shares	**-**	**-**	**1.1**	**-**	**-**	**-**	**(0.6)**	**0.5**	**-**	**0.5**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**3.2**	**3.2**	**-**	**3.2**
Deferred tax on share schemes	**-**	**-**	**-**	**-**	**-**	**-**	**(1.1)**	**(1.1)**	**-**	**(1.1)**
Balance as at 30 June 2019	**89.5**	**10.5**	**(5.7)**	**(68.6)**	**59.8**	**248.8**	**(35.2)**	**299.1**	**30.7**	**329.8**

Condensed consolidated cash flow statement
For the half year ended 30 June 2019

	Note	**Half year 2019 unaudited US$m**	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Cash inflow from operating activities				
Net cash inflow from operations	**11 (a)**	**69.0**	37.9	171.1
Interest paid		**(7.6)**	(7.7)	(19.1)
Taxation paid	**11 (b)**	**(27.0)**	(26.0)	(50.1)
Net cash generated by operating activities		**34.4**	4.2	101.9
Cash inflow/(outflow) from investing activities				
Investment income	**11 (c)**	**-**	0.2	1.6
Net capital expenditure and financial investment	**11 (d)**	**(19.0)**	(15.0)	(45.6)
Acquisitions and disposals	**11 (e)**	**27.4**	1.1	(0.1)
Net cash generated by/(absorbed in) investing activities		**8.4**	(13.7)	(44.1)
Cash inflow/(outflow) from financing activities				
Receipts from exercise of share options		**0.2**	3.0	3.0
Dividends paid to equity shareholders		**(16.4)**	(13.3)	(21.1)
Dividends paid to non-controlling interests		**(7.5)**	(6.0)	(14.8)
Payment of lease liabilities		**(7.6)**	-	-
Net (decrease)/increase in other borrowings		**(10.0)**	19.7	(20.4)
Net cash (absorbed in)/generated by financing activities		**(41.3)**	3.4	(53.3)
Net increase/(decrease) in cash and cash equivalents		**1.5**	(6.1)	4.5
Net cash and cash equivalents at beginning of the period		**115.7**	116.8	116.8
Foreign exchange gains/(losses) on cash and cash equivalents		**0.3**	(2.7)	(5.6)
Net cash and cash equivalents at end of the period	**11 (f)**	**117.5**	108.0	115.7
Reconciliation of net cash flow to movement in net debt				
Net increase/(decrease) in cash and cash equivalents		**1.5**	(6.1)	4.5
Net decrease/(increase) in other borrowings		**10.0**	(19.7)	20.4
Change in net debt resulting from cash flows (Free cash flow)	**14 (e)**	**11.5**	(25.8)	24.9
Increase in lease liabilities on adoption of IFRS 16	**1**	**(57.7)**	-	-
Net movement in lease liabilities during the period following the adoption of IFRS 16		**(0.2)**	-	-
Other non-cash movements		**(0.4)**	(0.4)	(0.7)
Foreign exchange gains/(losses)		**0.4**	(2.5)	(5.4)
(Decrease)/increase in net debt		**(46.4)**	(28.7)	18.8
Net debt at start of period		**(222.7)**	(241.5)	(241.5)
Net debt at end of period	**11 (f)**	**(269.1)**	(270.2)	(222.7)

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 2019 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2018 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 2018, 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 2018 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). The financial information for the year ended 31 December 2018 is derived from the statutory accounts for that year, which have been filed with the Registrar of Companies. The audit report on the statutory accounts for the year ended 31 December 2018 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 2019:

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

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

Changes in accounting policies – IFRS 16 Leases

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

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

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

Accounting policies under IFRS 16 Leases

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

1. Basis of preparation (continued)

Accounting policies under IFRS 16 Leases (Continued)

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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

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

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

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

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Approach to IFRS 16 transition

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

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

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of the right-of-use asset on transition;
- Use hindsight to determine the term;
- Use onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36 Impairment;

1. Basis of preparation (continued)

Approach to IFRS 16 transition (continued)

- For leases with a remaining term of less than 12 months at 1 January 2019, the short-term lease exemption in IFRS 16 was taken; and
- Leases comprising of both an asset and a non-lease service component will not be separated and both asset and service cost will be included in the calculation of the initial asset and liability.

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

Financial impact of the adoption of IFRS 16

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

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

The adoption of IFRS 16 has had the following impact on the Group's results from continuing operations for the six months ended 30 June 2019:

	30 June 2019 unaudited US$m
Consolidated income statement	
Increase in operating profit	**1.0**
Decrease in profit before tax	**(0.8)**
Decrease in profit after tax	**(0.5)**
Consolidated cash flow statement	
Increase in cash flows from operating activities	**7.6**
Decrease in cash flows from financing activities	**(7.6)**

Following the adoption of IFRS 16 'Leases', payments of obligations under leases from 1 January 2019 are reported within cash flows from financing activities and are deducted in arriving at free cash flow. For the six months ended 30 June 2018 and year ended 31 December 2018 pre IFRS 16 there were immaterial amounts of payments under finance leases included within cash flows from financing activities.

As lease liabilities are included within net debt, the transition to IFRS 16 has resulted in an increase in net debt of $58.1 million as at 30 June 2019.

1. Basis of preparation (continued)

Financial impact of the adoption of IFRS 16 (continued)

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 unaudited US$m	1 January 2019 unaudited US$m
Land and buildings	**40.3**	38.8
Plant and equipment	**11.5**	12.6
Vehicles and office equipment	**5.9**	7.1
	57.7	58.5

IFRS 15 'Revenue from contracts with customers'

The Group adopted IFRS 15 'Revenue from contracts with customers' during the year ended 31 December 2018 using the full retrospective approach with no changes made to opening equity as at 1 January 2018.

IFRS 15 replaced 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 review of the requirements of IFRS 15 was completed by the Group during the second half of the year ended 31 December 2018 as industry practice emerged. 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 accounting treatment under IAS 18. The Group's accounting policies for services revenue already allocated revenue to performance obligations on a basis consistent with IFRS 15 and no change in policy was required.

As part of the review, the Group identified rebates and discounts under certain arrangements which were recorded as operating costs under IAS 18 which under IFRS 15 are treated as a reduction of revenue. Consequently, there were presented as a reduction in the 2018 full year results and the 2017 full year comparative results restated.

The rebates and discounts outlined above that are treated as reductions of revenue from continuing operations for the six months ended 30 June 2018, rather than reported as operating costs, amounted to $4.5 million and have been restated as set out below:

IFRS 15 restatement impact on continuing operations for the six months ended 30 June 2018	**As reported [1] US$m**	**Adjustment US$m**	**As restated US$m**
Revenue	729.1	(4.5)	724.6
Gross profit	266.0	(4.5)	261.5
Distribution costs	73.9	4.5	78.4

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

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

1. Basis of preparation (continued)

Discontinued operations

In January 2019 the Group announced the agreement to sell the North America Crafts business to Spinrite Acquisition Corp and the sale was completed on 20 February 2019, the date which control passed to the acquirer. The North America Crafts business was classified as held for sale at 31 December 2018 and its results presented as a discontinued operation in the financial statements of the Group for the year ended 31 December 2018. Amounts for the six months ended 30 June 2018 in the condensed consolidated income statement have also been restated to reclassify the results of North America Crafts from continuing operations to discontinued operations. Note 13 provides further details on the results of North America Crafts.

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 2019	June 2018	December 2018
Average	Sterling	**0.77**	0.73	0.75
	Euro	**0.89**	0.83	0.85
	Brazilian Real	**3.85**	3.43	3.65
	Indian Rupee	**69.99**	65.69	68.41
Period end	Sterling	**0.79**	0.76	0.78
	Euro	**0.88**	0.86	0.87
	Brazilian Real	**3.83**	3.86	3.87
	Indian Rupee	**68.95**	68.46	69.77

2. Segmental analysis

Operating segments are components of the Group's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Group Executive Team). The Group's customers are grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

The reportable segments were changed in 2019 to Apparel & Footwear and Performance Materials and therefore comparative information for the six months ended 30 June 2018 and the year ended 31 December 2018 has been restated on a consistent basis.

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

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

Segment revenue and results

Six months ended 30 June 2019	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	**539.4**	**165.2**	**704.6**
Segment profit	**79.3**	**22.7**	**102.0**
Exceptional and acquisition related items			**(1.2)**
Operating profit			**100.8**
Share of profits of joint ventures			**0.5**
Investment income			**2.4**
Finance costs			**(18.3)**
Profit before taxation from continuing operations			**85.4**

Six months ended 30 June 2018	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations			
Revenue	558.0	166.6	724.6
Segment profit	75.7	23.4	99.1
Exceptional and acquisition related items			(19.5)
Operating profit			79.6
Share of profit of joint ventures			(0.1)
Investment income			1.3
Finance costs			(11.8)
Profit before taxation from continuing operations			69.0

2. Segmental analysis (continued)

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

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. No measures of total assets and total liabilities are reported for each reportable segment as such amounts are not regularly provided to the chief operating decision maker.

Disaggregation of revenue

The following table shows revenue disaggregated by primary geographical markets with a reconciliation of the disaggregated revenue with the Group's reportable segments.

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Continuing operations			
Primary geographic markets			
Asia	**395.4**	394.4	790.9
Americas	**166.9**	182.4	348.6
EMEA	**142.3**	147.8	275.2
Total	**704.6**	724.6	1,414.7
Continuing operations			
Apparel & Footwear	**539.4**	558.0	1,083.0
Performance Materials	**165.2**	166.6	331.7
Total	**704.6**	724.6	1,414.7
Timing of revenue recognition			
Goods transferred at a point in time	**697.9**	718.9	1,403.4
Software solutions services transferred over time	**6.7**	5.7	11.3
Total	**704.6**	724.6	1,414.7

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

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

3. Exceptional and acquisition related items

The Group's consolidated income statement format is presented 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 14.

Exceptional items

Exceptional items are set out below:

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Exceptional items:			
Connecting for Growth programme reorganisation costs:			
- Cost of sales	**0.2**	3.8	4.4
- Distribution costs	**0.8**	3.9	4.5
- Administrative expenses	**1.8**	9.7	13.9
	2.8	17.4	22.8
Profit from sale of property:			
- Other operating income	**(1.4)**	-	-
	1.4	17.4	22.8
Cost of sales:			
Brazil PIS/COFINS refunds	**(2.8)**	-	-
Administrative expenses:			
US environmental costs	**-**	-	8.0
UK pension scheme consolidation	**-**	(1.6)	(0.5)
UK Guaranteed Minimum Pension Equalisation	**-**	-	10.2
Total exceptional items (credited)/charged to operating profit from continuing operations	**(1.4)**	15.8	40.5

Connecting for Growth programme – The Connecting for Growth transformation programme, which is in its final year of a two year programme, is 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 focused on simplification across many aspects of the organisation and includes the transition from market-focused support functions to realigned globally integrated support functions, redesigning the way the Group services a number of its peripheral markets and moving from a business operated by individual local management teams to scalable clusters.

Exceptional reorganisation costs of $2.8 million have been incurred in the six months ended 30 June 2019 (six months ended 30 June 2018: $17.4 million; year ended 31 December 2018: $22.8 million) comprising:

- severance costs of $2.2 million (six months ended 30 June 2018: $15.7 million; year ended 31 December 2018: $20.5 million);
- fixed asset disposals and write offs of $nil (six months ended 30 June 2018: $0.6 million; year ended 31 December 2018: $0.6 million); and
- closure and other one-off costs of $0.6 million (six months ended 30 June 2018: $1.1 million; year ended 31 December 2018: $1.7 million).

During the six months ended 30 June 2019 a profit of $1.4 million was made from the sale of a property in a peripheral market.

3. Exceptional and acquisition related items (continued)

Brazil PIS/COFINS refunds - During the six months ended 30 June 2019 a final and unappealable Supreme Court decision was received by one of the Group's subsidiary companies in Brazil relating to payments of indirect taxes dating back to 2005. This Supreme Court decision grants the company the right to exclude Brazilian ICMS (indirect tax on goods and services) from the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes. As a result, estimated refunds have been recognised in the results for the six months ended 30 June 2019 with an exceptional credit of $2.8 million included in cost of sales of and exceptional interest income recognised of $1.5 million.

Legal filings have been advanced in respect of the Group's other subsidiary in Brazil in respect of the same matter which dates back approximately 15 years but the Supreme Court ruling has not yet been received. This represents a contingent asset and no amounts have been recognised in the results for the six months ended 30 June 2019 for this. At this stage it is not practicable to quantify the potential amount of this contingent asset.

Discontinued operations – During the six months ended 30 June 2019 exceptional charges in relation to discontinued operations were $1.7 million (six months ended 30 June 2018: $nil; year ended 31 December 2018 $18.4 million). See note 13 for further details.

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

US environmental costs – In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. An additional provision of $8.0 million was made during the year ended 31 December 2018 (six months ended 30 June 2018: $nil) to cover legal and professional fees in respect of this matter (see note 10).

UK pension scheme consolidation - Following agreement with the UK Pension Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the Coats UK, Brunel and Staveley schemes (the Previous Schemes) were transferred to a single new scheme (named the Coats UK Pension Scheme). The Previous Schemes were wound-up and as part of this process a number of the Previous Schemes' members with small pension entitlements were given the option to exchange their pension entitlement for a cash lump sum. This process resulted in an exceptional credit of $1.8 million during the year ended 31 December 2018. Costs incurred in connection with the UK pension scheme consolidation were $1.3 million and as a result the net credit for the year was $0.5 million (six months ended 30 June 2018: net credit of $1.6 million).

UK Guaranteed Minimum Pension Equalisation – During the year ended 31 December 2018 an estimated past service charge of $10.2 million (six months ended 30 June 2018: $nil) was recognised following the Lloyds Banking Group judgement in October 2018 and the requirement for all UK pension schemes to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions. This represented an increase of approximately 0.35% of pension scheme liabilities.

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.

Acquisition related items

Acquisition related items are set out below:

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Administrative expenses:			
Contingent consideration	**1.2**	2.5	4.3
Acquisition transaction costs	**-**	-	0.7
Amortisation of acquired intangibles	**1.4**	1.2	2.3
Total acquisition related items charged to operating profit	**2.6**	3.7	7.3

3. Exceptional and acquisition related items (continued)

Acquisition related items (continued)

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

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

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

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Income from investments	**0.1**	-	0.1
Other interest receivable and similar income	**2.3**	1.3	1.6
	2.4	1.3	1.7

Other interest receivable and similar income for the six months ended 30 June 2019 includes exceptional income of $1.5 million relating to Brazil PIS/COFINS refunds (see note 3 for further details).

5. Finance costs

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Interest on bank and other borrowings	**7.6**	7.7	15.9
Interest expense on lease liabilities	**1.8**	-	-
Net interest on pension scheme assets and liabilities	**2.8**	2.1	3.8
Other finance costs including unrealised gains and losses on foreign exchange contracts	**6.1**	2.0	6.4
	18.3	11.8	26.1

6. Taxation

The taxation charges for the six months ended 30 June 2019 and 30 June 2018 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 2019 the tax credit in respect of exceptional and acquisition related items was $0.1 million (30 June 2018: $2.1 million). For the year ended 31 December 2018 the tax credit in respect of exceptional and acquisition related items was $4.8 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 2019 unaudited US$m	Restated [1] Half year 2018 unaudited US$m	Full year 2018 audited US$m
Profit from continuing operations attributable to equity shareholders	**49.2**	32.9	54.8
Profit from continuing and discontinued operations attributable to equity shareholders	**46.3**	34.2	39.2

	Half year 2019 unaudited Number of shares m	Half year 2018 unaudited Number of shares m	Full year 2018 audited Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,443.0**	1,419.3	1,420.1
Adjustment for share options and LTIP awards	**6.2**	12.3	27.3
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,449.2**	1,431.6	1,447.4

	Half year 2019 unaudited cents	Restated [1] Half year 2018 unaudited cents	Full year 2018 audited cents
Continuing operations:			
Basic earnings per ordinary share	**3.41**	2.32	3.85
Diluted earnings per ordinary share	**3.39**	2.30	3.78
Continuing and discontinued operations:			
Basic earnings per ordinary share	**3.21**	2.41	2.76
Diluted earnings per ordinary share	**3.19**	2.39	2.70

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

8. Issued share capital

During the six months ended 30 June 2019 the Company issued 16,019,196 Ordinary Shares of 5p each (six months ended 30 June 2018: 12,961,057; year ended 31 December 2018: 14,191,384) following the exercise of awards under the Group's share based incentive plans as set out below:

	Number of Shares	**US$m**
At 1 January 2019	1,427,492,032	88.5
Issue of ordinary shares	16,019,196	1.0
At 30 June 2019	**1,443,511,228**	**89.5**

The own shares reserve of $5.7 million at 30 June 2019 (31 December 2018: $6.8 million; 30 June 2018: $7.1 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 2019 was 14,618,527 (31 December 2018: 17,165,314; 30 June 2018: 17,681,876).

9. Dividends

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
2018 final dividend paid – 1.16 cents per share	**16.6**	-	-
2018 interim dividend paid – 0.50 cents per share	**-**	-	7.0
2017 final dividend paid – 1.00 cents per share	**-**	14.1	14.1
	16.6	14.1	21.1

The directors have declared an ordinary interim dividend per share of 0.55 cents (30 June 2018: 0.50 cents) to be paid on 15 November 2019 to shareholders on the register on 25 October 2019. 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 at some point in 2020, although that date may be extended.

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

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

As at 30 June 2019, $7.0 million of this provision had been utilised. The remaining provision at 30 June 2019, taking into account insurance reimbursement, was $16.8 million. The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

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

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

11. Notes to the condensed consolidated cash flow statement

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

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Operating profit	**100.8**	79.6	147.1
Depreciation of owned property, plant and equipment	**14.9**	15.1	29.5
Depreciation of right-of-use assets	**7.1**	-	-
Amortisation of intangible assets	**4.3**	4.7	9.2
Increase in inventories	**(12.3)**	(13.1)	(6.8)
Increase in debtors	**(28.8)**	(46.9)	(18.5)
(Decrease)/increase in creditors	**(2.1)**	17.7	8.8
Provision and pension movements	**(15.6)**	(13.4)	(4.5)
Currency and other non-cash movements	**2.5**	0.8	6.1
Discontinued operations	**(1.8)**	(6.6)	0.2
Net cash inflow from operations	**69.0**	37.9	171.1

b) Taxation paid

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Overseas tax paid	**(27.0)**	(26.0)	(51.4)
Discontinued operations	**-**	-	1.3
	(27.0)	(26.0)	(50.1)

c) Investment income

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Interest and other income	**-**	0.2	-
Dividends received from joint ventures	**-**	-	1.6
	-	0.2	1.6

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

d) Capital expenditure and financial investment

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Acquisition of property, plant and equipment and intangible assets	**(22.0)**	(20.9)	(47.6)
Disposal/(purchase) of other equity investments	**0.4**	-	(5.4)
Disposal of property, plant and equipment	**2.1**	0.9	3.2
Discontinued operations	**0.5**	5.0	4.2
	(19.0)	(15.0)	(45.6)

e) Acquisitions and disposals

	Half year 2019 unaudited US$m	Half year 2018 unaudited US$m	Full year 2018 audited US$m
Acquisition of businesses	**(4.2)**	(1.7)	(1.8)
Disposal of businesses	**31.6**	(0.2)	-
Discontinued operations	**-**	3.0	1.7
	27.4	1.1	(0.1)

f) Summary of net debt

	30 June 2019 unaudited US$m	30 June 2018 unaudited US$m	31 December 2018 audited US$m
Cash and cash equivalents	**124.1**	126.4	135.7
Bank overdrafts	**(6.6)**	(18.4)	(20.0)
Net cash and cash equivalents	**117.5**	108.0	115.7
Other borrowings	**(327.8)**	(378.2)	(338.4)
Net debt excluding lease liabilities	**(210.3)**	(270.2)	(222.7)
Lease liabilities	**(58.8)**	-	-
Total net debt	**(269.1)**	(270.2)	(222.7)

12. Acquisitions

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

The initial consideration transferred for the acquisition was $3.8 million and net of cash and cash equivalents acquired was $3.7 million.

Additional consideration of $0.8 million was paid in July 2019 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. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Contingent deferred consideration amounts will therefore be charged to the income statement over the period of service they relate to. Up to $6.4 million is payable over a service period of four years to 31 December 2022. The charge to the income statement for the six months ended 30 June 2019 was $0.4 million.

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

	Provisional fair value recognised US$m
Assets	
Intangible assets	3.9
Property, plant and equipment	0.1
Trade and other receivables	0.8
Cash and cash equivalents	0.1
	4.9
Liabilities	
Trade and other payables	(0.7)
Deferred tax liabilities	(0.6)
Total identifiable net assets acquired at fair value	3.6
Goodwill recognised on acquisition (provisional)	1.0
	4.6
Purchase consideration paid	3.8
Additional purchase consideration payable	0.8
Total consideration	4.6

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 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).

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

12. Acquisitions (continued)

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.

ThreadSol revenues of $0.4 million and loss before tax of $0.5 million from the date of acquisition to 30 June 2019 has been included in the results from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been $0.6 million and the loss before tax would have been $0.7 million based on unaudited management accounts for the six months ended 30 June 2019.

Transaction costs paid in the six months ended 30 June 2019 were $0.5 million and are included in the cash flows absorbed in investing activities in the condensed consolidated cash flow statement. These transaction costs were expensed and included in administrative expenses in the year ended 31 December 2018.

The total cash outflow in the six months ended 30 June 2019 relating to the acquisition of ThreadSol was $4.2 million representing the initial consideration paid net of cash and cash equivalents acquired of $3.7 million and transaction costs paid of $0.5 million.

Acquisition of Patrick Yarn

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.

The assessment of the fair values of assets and liabilities was completed during the year ended 31 December 2018 within 12 months of the acquisition date. As part of the assessment of the fair value of the net assets acquired, an adjustment to increase deferred tax liabilities by $1.4 million was made in the second half of 2018 with a corresponding increase in goodwill of $1.4 million. As a result, amounts as of 30 June 2018 in the condensed consolidated statement of financial position have been restated, with no changes in net assets at 30 June 2018.

13. Discontinued operations and assets and liabilities held for sale

Sale of North America Crafts

In January 2019 the Group announced the agreement to sell the North America Crafts business to Spinrite Acquisition Corp and the sale was completed on 20 February 2019, the date which control passed to the acquirer. Sale proceeds of $34.6 million have been received in the six months ended 30 June 2019. The sale proceeds, which are on a debt and cash free basis, is subject to adjustments for the level of net working capital as at the time of completion which is in the process of being finalised.

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

a) Discontinued operations

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

	Half year 2019 unaudited US$m	Half year 2018 * unaudited US$m	Full year 2018 audited US$m
Revenue	**14.8**	62.2	128.3
Cost of sales	**(10.4)**	(42.4)	(88.5)
Gross profit	**4.4**	19.8	39.8
Distribution costs	**(3.7)**	(15.9)	(29.2)
Administrative expenses	**(1.9)**	(6.2)	(11.5)
Other operating income	**-**	3.6	3.6
Operating (loss)/profit and (loss)/profit before taxation	**(1.2)**	1.3	2.7
Tax on (loss)/profit	**-**	-	0.1
(Loss)/profit from discontinued operations for the period	**(1.2)**	1.3	2.8
Losses on disposals (note 13(b))	**(1.7)**	-	-
Loss arising on remeasurement to fair value less cost to sell (note 13 (c))	**-**	-	(18.4)
Total (loss)/profit from discontinued operations	**(2.9)**	1.3	(15.6)

Revenue in the table above includes inter-company sales for the six months ended 30 June 2019 of $nil (six months ended 30 June 2018: $0.3 million; year ended 31 December 2018: $0.8 million). External revenue of the North America Crafts business for the six months ended 30 June 2019 was $14.8 million (six months ended 30 June 2018: $61.9 million; year ended 31 December 2018: $127.5 million).

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

	Half year 2019 unaudited cents	Half year 2018 * unaudited cents	Full year 2018 audited cents
(Loss)/earnings per ordinary share from discontinued operations:			
Basic (loss)/earnings per share	**(0.20)**	0.09	(1.09)
Diluted (loss)/earnings per ordinary share	**(0.20)**	0.09	(1.08)

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

	Half year 2019 unaudited US$m	Half year 2018 * unaudited US$m	Full year 2018 audited US$m
Net cash (outflow)/inflow from operating activities	**(1.8)**	(6.6)	1.5
Net cash inflow from investing activities	**0.5**	8.0	5.9
Net cash flows from discontinued operations	**(1.3)**	1.4	7.4

* Restated to reflect the results of the North America Crafts business as a discontinued operation.

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

b) Losses on disposals

The major classes of assets and liabilities disposed relating to North America Crafts was as follows:

	US$m
Property, plant and equipment	-
Right-of-use assets	13.8
Inventories	35.3
Trade and other receivables	13.6
Total assets	**62.7**
Trade and other payables	(13.2)
Deferred tax liabilities	(0.4)
Lease liabilities	(13.6)
Total liabilities	**(27.2)**
Net assets disposed	**35.5**
Consideration received	(34.6)
Disposal costs and completion adjustments	2.7
Curtailment gain on post-retirement medical liabilities	(1.4)
Total exceptional loss on disposal	**2.2**
Profit on disposal of legacy UK Crafts property	(0.5)
Exceptional losses on disposals – discontinued operations	**1.7**

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

In addition Coats retains the previously incurred pension obligations and post-retirement medical liabilities from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of $64.7 million at 31 December 2018 with a recoverable surplus of $48.1 million recognised on the balance sheet. As a consequence of the disposal during the six months ended 30 June 2019 the recoverable surplus recognised on the balance sheet was reduced by $10.6 million (although there was no change in the gross surplus in the scheme) and a curtailment gain arose on the post-retirement medical liabilities of $1.4 million.

c) Assets and liabilities held for sale

The assets and liabilities of North America Crafts were classified at 31 December 2018 as a disposal group held for sale. Assets and liabilities classified as held for sale consist of the following:

	30 June 2019 unaudited	30 June 2018 unaudited	31 December 2018 audited
	US$m	US$m	US$m
Assets of the disposal group classified as held for sale	**-**	-	50.6
Other non-current assets classified as held for sale [1]	**0.3**	1.0	0.8
Total assets of the disposal group and non-current assets classified as held for sale	**0.3**	1.0	51.4
Liabilities of the disposal group classified as held for sale	**-**	-	(17.9)
Total net assets classified as held for sale	**0.3**	1.0	33.5

[1] The other non-current assets classified as held for sale of $0.3 million (31 December 2018: $0.8 million; 30 June 2018: $1.0 million) are property, plant and equipment that do not relate to North America Crafts.

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

c) Assets and liabilities held for sale (continued)

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

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

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

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

14. 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 2018.

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

14. Alternative performance measures (continued)

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

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

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

The effects of currency changes are removed through restating prior year revenue and operating profit at current 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 2019 unaudited US$m**	Restated [1] Half year 2018 unaudited US$m	% Growth
Revenue from continuing operations	**704.6**	724.6	(3%)
Constant currency adjustment	**-**	(32.4)	
Revenue on a CER basis	**704.6**	692.2	2%
Revenue from acquisitions	**(0.4)**	-	
Organic revenue on a CER basis	**704.2**	692.2	2%

Operating profit	**Half year 2019 unaudited US$m**	Restated [1] Half year 2018 unaudited US$m	% Growth
Operating profit from continuing operations[2]	**100.8**	79.6	27%
Exceptional and acquisition related items (note 3)	**1.2**	19.5	
Adjusted operating profit from continuing operations	**102.0**	99.1	3%
Constant currency adjustment	**-**	(4.2)	
Adjusted operating profit on a CER basis	**102.0**	94.9	7%
Operating loss from acquisitions	**0.5**	-	
Organic adjusted operating profit on a CER basis	**102.5**	94.9	8%

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

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

14. Alternative performance measures (continued)

b) Adjusted EBITDA

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

During the six months ended 30 June 2019 the Group adopted IFRS 16 'Leases'. The Group has adopted the modified retrospective approach from the 1 January 2019 transitional date, and therefore comparatives have not been restated (see note 1). Accordingly to enable comparison with prior periods adjusted EBITDA does not exclude the effect of depreciation of right-of-use assets.

Operating profit before exceptional and acquisition related items and before depreciation of owned fixed assets and amortisation (Adjusted EBITDA) is set out below:

	Half year 2019 unaudited US$m	Restated [1] Half year 2018 unaudited US$m	Full year 2018 audited US$m
Operating profit from continuing operations[2]	**100.8**	79.6	147.1
Exceptional and acquisition related items (note 3)	**1.2**	19.5	47.8
Adjusted operating profit from continuing operations	**102.0**	99.1	194.9
Depreciation of owned property, plant and equipment	**14.9**	15.1	29.5
Amortisation of intangible assets	**2.9**	3.5	6.9
Adjusted EBITDA	**119.8**	117.7	231.3

Adjusted EBITDA on a last twelve months basis to 30 June 2019 was $233.4 million (30 June 2018: $216.9 million). Adjusted EBITDA on a last twelve months basis to 30 June 2019 of $233.4 million is the adjusted EBITDA for the six months ended 30 June 2019 of $119.8 million plus the adjusted EBITDA for the year ended 31 December 2018 of $231.3 million less the adjusted EBITDA for the six months ended 30 June 2018 of $117.7 million.

Net debt excluding lease liabilities recognised following the adoption of IFRS 16 was $210.3 million at 30 June 2019 (30 June 2018: $270.2 million, 31 December 2018: $222.7 million).

This gives a leverage ratio of net debt excluding lease liabilities to Adjusted EBITDA of 0.9 (30 June 2018: 1.2, 31 December 2018: 1.0).

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

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

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

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.

14. Alternative performance measures (continued)

c) Underlying effective tax rate (continued)

	Half year 2019 unaudited US$m	Restated [1] Half year 2018 unaudited US$m	Full year 2018 audited US$m
Profit before taxation	**85.4**	69.0	122.8
Exceptional and acquisition related items (note 3)	**(0.3)**	19.5	47.8
Net interest on pension scheme assets and liabilities (note 5)	**2.8**	2.1	3.8
Underlying profit before taxation	**87.9**	90.6	174.4
Taxation	**25.8**	26.0	49.0
Tax credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**0.3**	2.1	4.9
Underlying taxation charge	**26.1**	28.1	53.9
Underlying effective tax rate	**30%**	31%	31%

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

d) Adjusted earnings per share

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

	Half year 2019 unaudited US$m	Restated [1] Half year 2018 unaudited US$m	Full year 2018 audited US$m
Profit from continuing operations	**59.6**	43.0	73.8
Non-controlling interests	**(10.4)**	(10.1)	(19.0)
Profit from continuing operations attributable to equity shareholders	**49.2**	32.9	54.8
Exceptional and acquisition related items net of non-controlling interests (note 3)	**(0.3)**	19.4	47.6
Tax credit in respect of exceptional and acquisition related items	**(0.1)**	(2.1)	(4.8)
Adjusted profit from continuing operations	**48.8**	50.2	97.6
Weighted average number of Ordinary Shares	**1,443,019,610**	1,419,303,838	1,420,069,352
Adjusted earnings per share (cents)	**3.37**	3.53	6.87
Adjusted earnings per share (growth %)	**(4%)**		

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).

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

14. Alternative performance measures (continued)

e) Adjusted free cash flow

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

	Half year 2019 unaudited	Restated [1] Half year 2018 unaudited	Full year 2018 audited
	US$m	US$m	US$m
Change in net debt resulting from cash flows (free cash flow)	**11.5**	(25.8)	24.9
Acquisition of businesses (note 11(e))	**4.2**	1.7	1.8
Acquisition of other equity investment	**-**	-	5.0
Disposal of businesses (note 13)	**(31.6)**	-	-
Net cash flows from discontinued operations (note 13)	**1.3**	(1.4)	(7.4)
Net cash outflow in respect of exceptional reorganisation costs	**2.9**	12.9	20.7
UK Pensions Regulator ('tPR') investigation and UK pension consolidation costs	**-**	1.1	2.2
Payments to UK pension schemes	**11.9**	11.3	24.0
Net cash flows in respect of other exceptional and acquisition related items	**4.3**	6.8	7.5
Receipts from exercise of share options	**(0.2)**	(3.0)	(3.0)
Dividends paid to equity shareholders	**16.4**	13.3	21.1
Tax outflow/(inflow) in respect of adjusted cash flow items	**0.2**	-	(0.6)
Adjusted free cash flow	**20.9**	16.9	96.2

[1] Restated to reflect the results of the North America Crafts business as a discontinued operation.

14. Alternative performance measures (continued)

f) Return on capital employed

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

	30 June 2019 unaudited US$m	30 June 2018 unaudited US$m	31 December 2018 audited US$m
Operating profit before exceptional and acquisition related items on a last twelve months' basis[1]	**197.8**	179.5	194.9
Non-current assets			
Acquired intangible assets[2]	**43.3**	42.0	40.0
Property, plant and equipment	**275.2**	276.1	282.2
Trade and other receivables	**16.7**	18.5	21.4
Current assets			
Inventories	**197.4**	194.3	185.4
Trade and other receivables	**287.2**	290.4	253.8
Current liabilities			
Trade and other payables	**(300.0)**	(316.1)	(302.7)
Non-current liabilities			
Trade and other payables	**(20.7)**	(30.3)	(23.1)
Capital employed	**499.1**	474.9	457.0
ROCE	**40%**	38%	43%

All amounts above exclude the discontinued North America Crafts business.

During the six months ended 30 June 2019 the Group adopted IFRS 16 'Leases'. The Group has adopted the modified retrospective approach from the 1 January 2019 transitional date, and therefore comparatives have not been restated (see note 1). Accordingly to enable comparison of ROCE with prior periods, capital employed used in the calculation of ROCE does not include right-of-use assets and lease liabilities.

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

[2] Acquired intangibles at 30 June 2018 have been restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mil Inc. (see note 12).

15. Fair value of assets and liabilities

As at 30 June 2019 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

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

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

15. Fair value of assets and liabilities (continued)

Financial assets measured at fair value

30 June 2019	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial assets measured at fair value through the income statement:				
Trading derivatives	**1.4**	**-**	**1.4**	**-**
Financial assets measured at fair value through the statement of other comprehensive income:				
Derivatives designated as effective hedging instruments	**2.5**	**-**	**2.5**	**-**
Other investments	**6.3**	**1.3**	-	**5.0**
Total	**10.2**	**1.3**	**3.9**	**5.0**

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:				
Trading derivatives	2.0	-	2.0	-
Financial assets measured at fair value through the statement of other comprehensive income:				
Derivatives designated as effective hedging instruments	1.9	-	1.9	-
Other investments	1.1	1.1	-	-
Total	5.0	1.1	3.9	-

31 December 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:				
Trading derivatives	1.6	-	1.6	-
Financial assets measured at fair value through the statement of other comprehensive income:				
Derivatives designated as effective hedging instruments	1.3	-	1.3	-
Other investments	6.7	1.7	-	5.0
Total	9.6	1.7	2.9	5.0

15. Fair value of assets and liabilities (continued)

Financial liabilities measured at fair value

30 June 2019	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(3.4)**	-	**(3.4)**	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**(0.1)**	**-**	**(0.1)**	**-**
Total	**(3.5)**	-	**(3.5)**	-

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:				
Trading derivatives	(2.4)	-	(2.4)	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(5.7)	-	(5.7)	-
Total	(8.1)	-	(8.1)	-

31 December 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:				
Trading derivatives	(0.7)	-	(0.7)	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(3.5)	-	(3.5)	-
Total	(4.2)	-	(4.2)	-

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

16. Principal risks and uncertainties

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 2018. These principal risks and uncertainties are as follows:

Strategic risks

- Connecting for Growth programme
- Appropriate talent and capability development

External risks

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

Operational risks

- Risk of supplier non-performance and/or unavailability and/or price increases of raw materials
- Product and services liability risk
- Bribery and anti-competitive behaviour risk

Legacy risks

- Pension scheme deficit funding
- Lower Passaic River Legacy environmental matter

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 2018 on pages 23 to 28, a copy of which is available on the Group's website, www.coats.com.

17. 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.

18. Related party transactions

There have been no related party transactions or changes in related party transactions described in the 2018 Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

19. Directors

The following persons were directors of Coats Group plc during the half year ended 30 June 2019 and up to the date of this report:

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

20. Publication

This statement will be available at the registered office of the Company, 4 Longwalk Road, Stockley Park, Uxbridge, Middlesex, UB11 1FE. 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 19 to the Condensed Consolidated Financial Statements.

By order of the Board,

M Clasper
Chairman
1 August 2019

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Registered in England and Wales No. 103548