13 August 2020

Coats Group plc

2020 Half Year Results

Strong cash performance; demand trend improving through Q2

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread manufacturer, announces its unaudited results for the six month period ended 30 June 2020 (the 'period').

Continuing operations [3]	H1 2020	H1 2019	Change	CER change [1]	Organic change [1]
Revenue	$536m	$705m	(24)%	(21)%	(26)%
Adjusted [1]					
Operating profit	$34m	$102m	(67)%	(66)%	(66)%
Basic earnings per share	0.0c	3.4c			
Free cash flow (6 months)	$(5)m	$21m			
Return on capital employed (ROCE) [5]	28%	40%			
Leverage [6]	1.3x	0.9x			
Reported [2,3]					
Operating profit	$29m	$101m			
Basic earnings per share	(0.6)c	3.4c			
Net cash generated by operating activities	$15m	$34m			
Net debt (incl. IFRS 16 [4])	$267m	$269m			

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

'I am proud of the speed, confidence, clarity and empathy with which Coats has responded to the COVID-19 challenges. As a result of the significant ongoing COVID-19 effects seen in the period, the Group continues to be focused on three key priorities, namely; continuing to ensure the health and safety of our employees; cash, liquidity and working capital management; and supporting our customers and maintaining the critical elements of our supply chain.

'Very early in the crisis, we took decisive underpinning action to protect the financial health of the business. On cash and liquidity, our swift action resulted in maintaining a comfortable headroom position. Working capital levers were managed well to optimise cash while maximising our ability to serve customers. Cost actions were taken to underpin profit without compromising our ability to implement our strategy.

'We have seen an improving sales trend in recent, albeit low-season, months with organic sales declines reducing to 25% in June and 18% in July. As we look to the remainder of the second half we are mindful of the ongoing wider macro-economic uncertainty caused by COVID-19 and the importance of trading in the peak months of September, October and November.

'Our focus has already shifted to winning the recovery. In a crisis, customers depend on trusted and dependable partners like Coats that offer quality, reliability, innovation, sustainability, digital solutions and technical support. Our global scale has allowed us to reliably deliver products and services to customers, resulting in incremental customer wins. We have seen an acceleration of digital adoption and sustainability in our industry and our recent investments in these areas have resulted in commercial gains during the period. Coats is focused on seizing the short-term and longer-term opportunities that are presented, and I am confident that Coats will emerge even stronger and more valuable to our industry and shareholders in a post-COVID world.'

Financial highlights

- Group revenues down 21% on a CER basis for the period (down 24% reported);
  - Organic revenues down 26%, which excludes a 5% contribution from the Pharr High Performance Yarns acquisition;
  - Significant impact from the demand and supply disruption caused by COVID-19; Q2 organic revenues down 45% (Q1 down 8%) but with an improving performance through the quarter with June underlying organic revenues down 25%;
  - Both segments impacted by COVID-19 during the period; Apparel & Footwear down 29% and Performance Materials down 19% on a CER organic basis.
- Adjusted operating profit of $34 million down 66% year-on-year on a CER basis (down 67% reported); resilient margins despite significant COVID-19 disruption as a result of the ability to significantly flex our cost base during the period.
- Adjusted EPS of zero cents driven by lower adjusted operating profits, higher effective tax rate and the impact of mark-to-market foreign exchange losses (primarily due to weakened Sterling in the period).
- Reported operating profit of $29 million and basic EPS of (0.6) cents; lower than adjusted measures primarily due to certain non-cash impairment costs in relation to COVID-19.
- Adjusted free cash outflow of $5 million (2019: $21 million inflow) reflecting prudent cash management (e.g. lower capital expenditure), and working capital unwind in Q2 based on strong collections and lower activity levels.
- Closing net debt (incl. IFRS 16) of $267 million; flat year-on-year despite purchase of Pharr HP business in February for $37 million; net debt (excl. IFRS 16) of $207 million (1.3x leverage [6]).
- Committed facility headroom of $270 million; providing comfortable liquidity and further improved since May Trading Update.

Covid-19 underpinning actions

- Full year 2020 capital expenditure to be reduced by c.70% to c.$15 million.
- Flexing of manufacturing footprint to manage impact of lower volumes.
- Q2 pay reductions for some 4,000 of our non-operational staff, senior management and Board.
- Agreeing with our UK pension trustees the deferrals of our remaining 2020 deficit recovery contributions.
- Cancellation of final 2019 dividend; no interim 2020 dividend declared.
- Significant reductions in other discretionary spend; SG&A down 21% year-on-year in Q2.
- £300 million of undrawn funding via Bank of England Covid Corporate Financing Facility (CCFF) available, providing additional headroom if required.

Strategic highlights

- Unwavering focus on supporting our customers; already delivering incremental new customer wins and share gains from competitors as we are able to leverage our global footprint, flexibility and digital tools to deliver exceptional customer service.
- Group remains well placed to navigate through the current challenging environment and emerge even stronger having moved quickly and prudently on underpinning measures.
- Balance Sheet remains in a strong position providing optionality over most attractive investments during post-COVID recovery phase.
- 13 new product launches during the period; pace of innovation accelerating, with strong pipeline in place.
- Launch of Coats Fast Start to help address the global shortage of PPE; aligned to the accelerating shift to industry digitisation.
- Acquisition of Pharr High Performance Yarns, completed in February; combination with existing US Personal Protection business delivers scale and market leadership in an attractive growth market.

1 *Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 14. Constant exchange rate (CER) figures are 2019 results restated at 2020 exchange rates. Organic figures are results on a CER basis and excluding contributions from bolt-on acquisitions (Pharr HP and Threadsol). 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, unless otherwise stated.*
4 *IFRS 16 (leases) applied on a prospective basis from 1 Jan 2019.*
5 *Return on Capital Employed (ROCE) definition can be seen in note 14, and relates to adjusted operating profits for the last twelve months.*
6 *Leverage calculated on a frozen GAAP basis, and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt.*

Conference call

Coats Management will present its half year results in a webcast / conference call at 0900 BST today (13 August 2020). The webcast can be accessed via www.coats.com/investors/hy2020. The conference call can be accessed by dialling +44 (0)20 3936 2999 and using participant access code '18 08 76'. 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 17,000 people across six continents. Revenues in 2019 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 Transportation, Telecommunications and Energy, and Personal Protection. Headquartered in the UK, Coats is a FTSE 250 company, a constituent of the FTSE4Good Index Series and a participant in the UN Global Compact. To find out more about Coats visit www.coats.com.

Cautionary statement

Certain statements in this half yearly report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Operating review

	H1 2020	H1 2019	Inc / (dec)	H1 2019 CER [1]	CER [1] inc/(dec)	Organic [1] inc/(dec)
	$m	$m	%	$m	%	%
Revenue [2]						
By segment						
Apparel and Footwear	372	539	**(31)%**	523	**(29)%**	**(29)%**
Performance Materials	164	165	**(1)%**	160	**2%**	**(19)%**
Total	**536**	**705**	**(24)%**	**683**	**(21)%**	**(26)%**
By region						
Asia	283	395	(28)%	388	(27)%	(27)%
Americas	149	167	(11)%	158	(6)%	(27)%
EMEA	104	142	(27)%	137	(24)%	(24)%
Total	**536**	**705**	**(24)%**	**683**	**(21)%**	**(26)%**
Adjusted operating profit [2,3]						
By segment						
Apparel and Footwear	27	79	(66)%	78	(65%)	(65)%
Performance Materials	7	23	(70)%	22	(68)%	(69)%
Total adjusted operating profit	**34**	**102**	**(67)%**	**100**	**(66)%**	**(66)%**
Exceptional and acquisition related items	(5)	(1)				
Operating profit	**29**	**101**				
Adjusted operating margin [2,3]						
By segment						
Apparel and Footwear	7.3%	14.7%	(740)bps	14.9%	(760)bps	(750)bps
Performance Materials	4.2%	13.7%	(950)bps	13.6%	(940)bps	(840)bps
Total	**6.4%**	**14.5%**	**(810)bps**	**14.6%**	**(820)bps**	**(780)bps**

1 2019 figures at 2020 exchange rates. Organic on a CER basis excluding contributions from bolt-on acquisitions (Pharr HP and Threadsol).
2 Includes contribution from bolt-on acquisitions made during the period.
3 On an adjusted basis which excludes exceptional and acquisition-related items.

Revenues

Group revenues decreased 24% on a reported basis, as all markets were impacted adversely by the COVID-19 pandemic during the period. On a CER basis, Group revenues reduced 21%, which was 3% above the reported rate of decrease as a result of year-on-year currency translation headwinds (notably Brazilian Real, Indian Rupee and Turkish Lira) during the period. On an organic CER basis, revenues declined 26% as a result of the 5% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was completed in February. All commentary below is on a CER basis unless otherwise mentioned

As previously reported, our Q1 organic revenues at a Group level were down 8%, which was largely driven by the initial impact of COVID-19 in our China market, alongside a sharp reduction in wider demand in the latter part of March as the global pandemic took hold. Revenues in Q2 at a Group level were down 45% on an organic basis, as we faced severe demand and supply impacts, particularly in April and May, albeit we saw an improving trend through the quarter as lockdown restrictions begun to ease around the globe and demand rose (June underlying organic sales down 25%).

Apparel and Footwear (A&F)

Revenues in our A&F business were down 29% for the period (down 31% reported) as a result of the impacts of COVID-19 seen firstly in our China business in Q1, and then during Q2 as wider global lockdown measures took hold. As the pandemic spread around the globe we saw large scale order cancellations / deferrals from brands and retailers which had a significant impact on demand from late March and throughout Q2. In April and May the business was also significantly impacted by lockdown measures in some of our key markets of India and Bangladesh. However as global lockdown measures eased we saw an encouraging improvement in demand during June, in part due to some April/May catch up, as production restarted at manufacturers.

Despite the very difficult market conditions we have faced from COVID-19, we have taken a customer focused approach throughout this period in order to support our partners and provide reliable sourcing. In China alone, we have provided enough thread to enable the production of some three million PPE facemasks. Our long standing and deep customer relationships with retailers and brands and the “peace of mind” we provide as a supplier is even more important at times such as this, as supply decisions increasingly factor in quality, reliability and reputation. A number of our existing key competitive differentiators have come even more to the forefront, such as our speed of supply, both through geographical proximity of our sites to our customers (Coats has the largest manufacturing footprint globally with some c.40 A&F sites) and our digital tools (e.g. Coats digital sampling tool and online ordering platform) which take human touch points out of the supply process.

In the period we launched Coats Fast Start, a digitally enabled initiative, which supports manufacturers switching parts of their production facilities and supply chains to help address the global shortage of PPE. We also launched a strategic collaboration with Res. Q and Serai (part of the HSBC group) which aims to re-shape the future of the apparel industry. This partnership will provide the apparel industry with access to a range of inter-connected digital solutions over a single digital platform and thereby reducing inefficiencies by connecting the multiple standalone systems that companies currently use to manage their processes. This will drive real-time data and end-to-end transparency across the supply chain, as well as driving efficiencies (leading to cost savings), and reducing the need for face-to-face contact.

Our global footprint has also proved advantageous as country-wide lockdowns have meant even more accelerated shifts in country sourcing patterns and this was seen throughout the half, such as during the initial Q1 shutdowns in China, which saw accelerated shifts in volumes to Vietnam. Furthermore, our in-house technical expertise has provided significant support to our customers, and our industry reputation for reliability (including compliance and sustainability) has meant we have become even more of a trusted partner during this difficult period. Whilst revenues have been significantly impacted in the period, our approach has yielded a number of customer share gains, as well as accelerated shifts to our recycled product range (EcoVerde), which leads us to believe our strategy during this period has been the right one and will lead to accelerated share gains on the way out of this crisis.

By sub-segment, we saw a broadly consistent impact across our portfolio. A&F thread revenues (c.85% of segment revenue) were down 28% year-on-year, in line with the wider segment sales decline of 29%. Zips and Trims revenue (c.10% of segment revenues) was marginally worse than the overall A&F decline due to the impact of specific market lockdowns (e.g. Italy), as was Latam Crafts and Coats Digital.

Performance Materials

Performance Materials revenues grew 2% in the period on a CER basis (1% decline reported), consisting of an organic decline of 19% and a 21% contribution from the acquisition of Pharr HP which was acquired in February. As with A&F, Performance Materials was significantly impacted in Q2 by the demand and supply disruption from COVID-19.

Organic sales growth performance in the period was underpinned by relatively robust performance in Personal Protection (16% organic decline) as yarn sales for protective wear remained more resilient throughout the period. In addition, the Other Industrial Applications end-use sub-segment performed relatively well as demand for products used in a number of these niche areas remained reasonably robust (e.g. medical and filtration products). Offsetting these more resilient end-uses was Transportation as the automotive industry remained challenged. Telecoms and Energy revenues were in line with the wider segment declines, albeit with a slightly higher decline in the latter part of the period as the temporarily delayed industry investments previously seen in H2 2019 were exacerbated by COVID-19.

Despite the obvious disruption during the period from COVID-19 we remained focused on delivering high levels of customer service and creating innovative new solutions for our customers in order to deliver incremental market share over time. We launched a number of new products in the period such as Coats Protect (a family of anti-microbial solutions for yarns and threads), which attracted significant interest and we will continue to accelerate our innovation credentials and solutions in order to deliver tailored customer solutions to meet their design requirements. We also saw a number of new customer wins in the period, including a significant European automotive manufacturer who we were able to support during the height of the COVID-19 crisis in April / May in order to win this new work. Overall in the period across both A&F and Performance Materials, we launched 13 new products, and our innovation pipeline to deliver further incremental revenues in H2 and beyond remains strong.

Geographical performance
By geography, we saw broadly similar organic declines across all territories due to the COVID-19 impact. Alongside the direct demand impact on our end-markets, we also saw significant supply disruption during Q2, with 18 of our c.50 manufacturing facilities being subject to enforced government closure at the peak of the global lockdowns in April. Since early May the vast majority of sites have been open, and at present only one of our sites are under enforced government closure.

In Asia we saw revenue decline by 27%, driven by key Apparel and Footwear markets, although performance varied quite widely country by country - for example India, which was relatively severely impacted by lockdown activities. This included a period of around 6 weeks where all six of our manufacturing facilities in India were subject to enforced closure, and demand was still being heavily impacted at the end of Q2. Our China operations, as previously reported were significantly affected in Q1 as the initial COVID impact occurred and continued to see some impact throughout Q2, with overall revenues down 29% in the period. Conversely, our Vietnam operation performed relatively well as a result of being less impacted by the pandemic (our sites in this territory have remained open throughout) and being a reliable and attractive alternative sourcing solution to other key Asia A&F markets. Our Bangladesh business also showed encouraging momentum in June, following severe lockdown restrictions in April which left our manufacturing sites subject to enforced government lockdown.

Our America business showed organic declines of 27% in the period, which was driven by weak A&F sales in Latin America (in particular Mexico and Brazil), with some offset from Performance Materials which was relatively resilient in the period. The Performance Materials result was underpinned by the Personal Protection decline of 16% (primarily a North America business), as referred to earlier.

In EMEA, revenue declined by 24% for the period, where Performance Materials performed slightly better than A&F. A number of key markets such as Turkey, Hungary and Tunisia showed encouraging signs of recovery later in the period, whereas other markets such as Italy (largely a zips business) were particularly challenged in Q2 due to the local macro-economic conditions.

Operating profit
At a Group level, adjusted operating profit decreased 66% to $34 million on a CER basis (2019: $100 million) and adjusted operating margins were down 820bps to 6.4% (2019: 14.6%).

The negative leverage volume impact of the COVID-19 disruption in Q2 was a significant headwind on margins in the period, as lower utilisation of factories lead to an under recovery of manufacturing overheads which severely impacted gross margins (gross margin down 6.7% year-on-year in the first half to 28.8%), as well as the anticipated initial dilutive impact of the Pharr HP acquisition. Management took quick and decisive actions over the manufacturing cost base to minimise the impact of these volume headwinds. This included temporarily flexing its manufacturing footprint to ensure the lower volume levels were most efficiently run through the site network (including flexing opening days and numbers of shifts). In addition to the management actions around footprint utilisation we have seen continued year-on-year benefits from productivity and procurement initiatives which broadly offset structural inflation (e.g. wages and energy), as well as raw material deflationary benefits from the lower oil price (which were retained through maintaining price) and which should continue into H2, with some offset by adverse mix in the period. In addition to gross margin actions, we also moved decisively to underpin our SG&A cost base (down 21% organically year-on-year in Q2) by minimising discretionary spend (for example travel and consulting costs) and implemented a 20% pay reduction for all c.4,000 non-operational staff in Q2. Despite these significant actions, and as a result of the large volume decline in Q2, the Group reported a modest operating loss during Q2.

Group organic adjusted operating profit declined 66% which is in line with the CER basis and is due to the small contribution made by Pharr HP in the period since ownership, as the volume impacts seen at a Group level also impacted Pharr HP. Excluding the expected dilutive effect on overall Group margins from Pharr HP (4%

operating margin business pre-acquisition), Group organic operating margins decreased by 780bps to 6.8% (vs a 820 bps reduction to 6.4% on a CER basis).

On a reported basis, Group operating profit (including exceptional and acquisition-related items) decreased 71% to $29 million (2019: $101 million), which is slightly below the level of adjusted operating profit decline due to slightly higher exceptional and acquisition related items in this period (vs minimal in 2019). See later for a breakdown of these exceptional items, which primarily relate to non-cash impairment items. 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.

Segmental profit
Segmental organic adjusted operating profit for A&F and Performance Materials moved broadly in line with Group adjusted operating profit (down 66%) with year-on-year reductions of 65% and 69% respectively, as both businesses were significantly impacted by COVID-19.

At an organic adjusted operating margin level, A&F margins (down 750bps) and Performance Materials margins (down 840bps) moved broadly in line. This was despite higher volume declines in A&F, and due to the relative larger scale of the A&F business and the ability to greater flex the manufacturing footprints of these sites accordingly to limit the downside volume impact. In addition, both businesses saw some negative mix impact during the period, which impacted the Performance Materials business slightly more than A&F. Performance materials margins, including Pharr HP were 940bps down year-on-year driven by the expected dilutive effect of the low margin Pharr HP acquisition, which impacted margins by a further 100bps in the period.

Balance Sheet and Liquidity
The Group has continued to focus on cash, liquidity and working capital management as one of its primary priorities throughout the COVID-19 crisis, in order to ensure it remains in a strong financial position, and to be well placed to navigate through the current environment safely and emerge even stronger when it passes.

Group net debt (excluding IFRS 16) as at 30 June 2020 was $207 million ($267 million including IFRS 16), which was below the same point in 2019 ($210 million), and reflects strong cash generation in that 12 month period, which has more than offset the purchase price of Pharr HP ($37 million), the payment of our 2019 interim dividend ($8 million), and pension deficit recovery payments for 9 months ($23 million, including administrative expenses). When compared to Group net debt (excluding IFRS 16) at 31 December 2019 of $150 million, net debt has increased by $58 million in the period mainly due to the purchase price of Pharr HP ($37 million), the well-controlled and marginal adjusted free cash outflow of $5 million (2019: $21 million inflow), and pension deficit recovery payments in Q1 ($8 million).

When the COVID-19 crisis initially hit, the Group moved quickly to take action to underpin liquidity and maintain comfortable levels of headroom. These actions include reducing our full year 2020 forecast capital expenditure by c.70% to around $15 million, cancelling our final FY19 dividend, and agreeing with our UK pension trustees the deferral of all remaining deficit recovery payments in 2020 (c.$17 million). We also have access to the Bank of England CCFF scheme which provides a further £300 million of liquidity, should it be required (currently undrawn).

In addition to these specific cash actions we have focused even more closely on working capital management during Q2, reflective of the difficult macro-economic environment. This heightened focus on managing our Group credit risk, as well as reducing purchases, together with lower operating levels (and the natural working capital unwind this yields) has led to a significant reduction in our net debt (excluding IFRS 16) at 30 April 2020 of $253 million to $207 million at 30 June 2020. Our net working capital on an organic basis as a % of sales (last twelve months) has remained in line with 2019 at 12.7% (30 June 2019: 12.9%). In addition, bad debt charges have remained at a low level ($4 million; 2019: $1.4 million) as a proportion of Group revenue (below 1%), albeit higher than recent years, reflective of the current macro-economic conditions.

At 30 June 2020, our leverage ratio (net debt to EBITDA; both excluding IFRS 16) was 1.3x, which included the impact of the significant reduction in profitability in Q2, and remains well within our 3x covenant limit. Our interest cover covenant also maintained significant headroom at 30 June 2020 at 9.6x vs a covenant of 4x. These covenants are tested twice annually at June and December, and monitored throughout the year. Committed headroom on our banking facilities was $270 million at 30 June, a further increase from the comfortable levels at 30 April 2020 that we reported in May (in our Trading Update) of $230 million.

We expect some increase to Group net debt in second half as lower levels of collections in Q3 (driven by lower Q2 sales levels) are exceeded by monthly recurring payments, as well as the impact of the deferral of $12 million indirect and direct tax payments (as part of government COVID schemes) from H1 into H2. Throughout H2, and as the business continues to recover from the Q2 significant sales impact, we expect some increases to net working capital during the period in order to support the sales recovery.

Acquisition of Pharr High Performance Yarns (“Pharr HP”)

On 10 February 2020, the Group completed the acquisition of the business and assets of Pharr HP, and as such the results for this period include around four months of Pharr results ($34 million revenue).

Founded in 1939, Pharr HP is a market-leading manufacturer of high-performance engineered yarns based in McAdenville, North Carolina, US, with around 350 employees. Pharr HP specialises in providing technical yarn solutions to the growing markets of Industrial Thermal Protection, Defence and Fire Service industries. The acquisition of Pharr HP's manufacturing capabilities and customer base provides further expertise and scale to Coats' existing Personal Protection business (part of the Performance Materials segment), and gives us a leadership position in this attractive growth market. Coats will enhance Pharr HP's performance by leveraging its extensive textile experience, strong industry connections, existing operational footprint in North America, and Coats' strong global brand to deliver high performance solutions for its customers.

Whilst revenues for Pharr HP in the period were impacted by COVID-19 (to a similar extent as the wider Group), we remain confident in the opportunity this acquisition presents us to build a leadership position and scale in the attractive Personal Protection sector.

Dividend

As a result of the ongoing uncertainty from the COVID-19 pandemic, and as part of the balanced stakeholder approach to maintaining a comfortable level of headroom throughout this period of uncertainty, the Board is not declaring an interim dividend for 2020. The Board is mindful of the importance of income to shareholders and as performance progresses and visibility increases, it will keep future dividends, including the final 2020 dividend, under review with any decision to be announced alongside the FY20 results in March 2021.

Outlook

We have seen an improving sales trend in recent, albeit low-season, months with organic sales declines reducing to 25% in June and 18% in July. As we look to the remainder of the second half we are mindful of the ongoing wider macro-economic uncertainty caused by COVID-19 and the importance of trading in the peak months of September, October and November.

The Board remains confident in the Group’s ability to continue to successfully manage through the current challenging macro-economic environment. As a Group we are in robust financial shape and a market leader with an unrivalled global footprint, which alongside our enhanced operational agility leaves us well placed to benefit from the acceleration in demand and emerge as a stronger business once COVID-19 passes.

We will continue to underpin our near-term financial performance with the necessary prudent mitigating cost and cash actions, whilst balancing the investment opportunities available to us in order to position ourselves to take full advantage of future growth opportunities.

Financial Review

Adjusted earnings per share ('EPS') for the period decreased to 0.0 cents (2019: 3.4 cents). This reduction was due to the significant decline in adjusted profit before tax (down 82% year-on-year), and the increase in effective tax rate to 48% (2019: 30%). The 82% decline in adjusted profit before tax was due to the decline in adjusted operating profit (67% at reported rates), and a higher year-on-year net interest charge (see below for further details).

The Income Statement on a reported basis was impacted by the relative strength of the US Dollar compared to the first half of 2019. 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. This resulted in a decline of 24% in reported revenues year on year, which is a 3% translation headwind when compared to the 21% revenue decline on a CER basis. At an adjusted operating profit level the translation impact was less where the reported decline of 67% compared to a 66% decline on a CER basis. The main currency impact during the period was the strengthening US Dollar against the Brazilian Real, Indian Rupee and Turkish Lira. At current exchange rates (30 June 2020) we expect a broadly consistent 3% translation headwind on revenues for the Full Year 2020.

The Group delivered an adjusted free cash outflow of $5 million in the period (2019: $21 million inflow) which was a robust performance in a period of significant operational disruption and reduced operating profits. Underpinning measures were quickly put in place, including reduced capital expenditure ($13 million in the period; 2019: $22 million), and a heightened focus on controlling working capital.

Return on capital employed (ROCE) was 28% which was lower than 2019 (40%) due to reduced adjusted operating profits (on a last twelve months basis down 34% year-on-year), the impact of Pharr HP (200 bps), with some offset from a well-controlled asset base during the period.

Non-operating results

Net finance costs in the period were $18.8 million (pre-exceptional), a $1.4 million increase year-on-year (2019: $17.4 million). The key driver of the increase in net finance costs in the year was a $5.7 million mark-to-market foreign exchange loss on forward hedging contracts and primarily in relation to weakening sterling (H1 2019: $2.5 million mark-to-market loss). This was offset by a $1.5 million reduction in interest on bank borrowings to $6.1 million (2019: $7.6 million) as a result of lower floating rates, and lower corporate facility utilisation compared to the same period in 2019.

The taxation charge for the period was $11.3 million (2019: $25.8 million). Excluding the impact of exceptional and acquisition-related items and the impact of IAS19 finance charges, the effective tax rate on pre-tax profit was 48% (2019: 30%). This increase has been driven by the significant impact of COVID-19 on the Group's profit mix in the period, where although income tax and withholding taxes continue to be charged in profitable markets, it is not always possible to recognise the tax credit associated with losses in certain markets. Excluding the impact of mark-to-mark foreign exchange losses in the period the underlying effective rate was 41% (vs immaterial impact on the effective tax rate in 2019).

As the Group's operations and profit mix normalise following the COVID-19 crisis, the Group's effective tax rate is expected to return to pre-crisis levels over time (2019 full year effective tax rate: 29%). The reported tax rate was 107% (2019: 30%), which includes the impact of exceptional and acquisition related items (including non-cash impairment charges incurred in the period due to COVID-19, which attracts zero tax relief).

Profit attributable to minority interests was $7.9 million, and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests). This was 24% below the 2019 level ($10.4 million) which reflects the relative strength of performance of those territories during the first half, compared to the wider Group.

Exceptional and acquisition-related items

Net exceptional and acquisition-related items before taxation were $5.1 million in 2020 ($0.3 million credit in 2019). This consisted of a $5.0 million charge in relation to the non-cash impairment of assets (including Plant and Machinery) at certain smaller European markets whose short-term financial performance and medium-term outlook has been impacted by COVID-19, and acquisition related items of $1.7 million (2019: $2.6 million). These were offset by a $1.3 million profit ($2.7 million cash proceeds) in relation to the sale of surplus property in Korea (part of the Connecting for Growth reorganisation programme).

The acquisition-related items of $1.7 million consisted of the amortisation of intangible assets acquired ($1.6 million), and acquisition earnouts ($0.1 million).

In the taxation line, exceptional items of $2.9 million predominantly related to tax in Brazil on 2019 exceptional receipts (in relation to a significant legacy tax claim that was successfully closed last year), and $1.9 million of deferred tax asset write offs which are no longer recognised due to the impacts of COVID-19.

Cash flow
The Group delivered $5 million of adjusted free cash outflow in first half of 2020 (2019: $21 million inflow). This free cash flow measure is before annual pension deficit recovery payments, acquisitions and dividends, and excludes exceptional items.

This adjusted free cash flow performance was lower than the same period in 2019 ($21 million inflow) as a result of significantly lower adjusted operating profit, with some offset from well controlled net working capital ($2 million inflow in the period; H1 2019: $41 million outflow), lower capital expenditure of $13 million (2019: $22 million) and lower tax payments (see below). Minority dividend payments of $11 million were $3 million higher year on year as we accelerated the repatriation of cash to the Group in order to prudently manage corporate headroom and ensure comfortable levels of liquidity around the Group.

Tax paid was $24 million, a decrease of $3 million from 2019 ($27 million). This reduction is primarily driven by the lower levels of profit in the Group during the period, although this impact is somewhat offset by the timing of certain prior year payments (as previously indicated) and ongoing withholding tax commitments in a number of territories.

The Group generated a free cash outflow of $54 million in the period (H1 2019: $12 million inflow), which primarily reflects the adjusted free cash outflow of $5 million referred to above, the consideration paid for the Pharr HP acquisition of $37 million, as well as the first quarter UK pension payments of $8 million.

As a result of the above free cash outflow in the period, net debt (excluding the impact of IFRS 16) as at 30 June 2020 was $207 million (31 December 2019: $150 million). Including the impact of IFRS 16, net debt as at 30 June 2020 was $267 million (31 December 2019: $215 million).

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 $141 million as at 30 June 2020, which was lower than 31 December 2019 ($181 million). This reduction is primary due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, shows a $54 million IAS19 deficit at 30 June 2020 (£43 million), which is $38 million lower than at 31 December 2019 ($92 million, £69 million). This reduction predominantly relates to net actuarial gains of $27 million (lower discount rate assumption due to lower corporate bond yields which was more than offset by asset increases), as well as $6 million employer contributions. The IAS19 discount rate remains underpinned by AA corporate bond yield spreads, unlike the Technical Provisions basis of valuation (relevant for the triennial valuation process) which is linked to gilt yields which have further reduced in the period.

In agreement with the trustees of the Coats UK Pension Scheme, and as part of the wider COVID-19 underpinning actions, we have agreed to defer the remaining deficit recovery payments for 2020 (April – December inclusive), to provide an additional c.$17 million of headroom cover during this year. The catch up of these payments are currently anticipated to commence in mid-2021 and be evenly spread over a period of around 18 months. We will continue to pay the scheme administrative expenses during this time (c.$5 million p.a.).

The effective date for the next UK scheme triennial is 31 March 2021, and this will be required to be finalised by no later than 30 June 2022.

Going Concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for at least the next 12 months and, accordingly, consider it appropriate to adopt the going concern basis in preparing the Half Year financial statements. Further details of our going concern assessment, financial scenarios and conclusions can be seen in note 1.

Principal risks and uncertainties

Coats, like other companies, has since early this year been responding to and mitigating the immediate and ongoing impacts of the COVID-19 pandemic, and preparing for the recovery period, as is detailed in this statement. As part of these activities we have reviewed our principal risk trends and mitigating actions and the details of these changes can be seen in note 16.

INDEPENDENT REVIEW REPORT TO COATS GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 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 19. 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.

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 the group 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 2020 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.

Use of our report

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.

Deloitte LLP
Statutory Auditor
London, United Kingdom
13 August 2020

Condensed consolidated financial statements

Condensed consolidated income statement
For the half year ended 30 June 2020

		Half year 2020			Half year 2019			Full year 2019
	Note	**Before exceptional and acquisition related items unaudited US$m**	**Exceptional and acquisition related items (note 3) unaudited US$m**	**Total unaudited US$m**	Before exceptional and acquisition related items unaudited US$m	Exceptional and acquisition related items (note 3) unaudited US$m	Total unaudited US$m	Total audited US$m
Continuing operations								
Revenue		**535.8**	**-**	**535.8**	704.6	-	704.6	1,388.7
Cost of sales		**(381.5)**	**(5.0)**	**(386.5)**	(454.4)	2.6	(451.8)	(897.7)
Gross profit		**154.3**	**(5.0)**	**149.3**	250.2	2.6	252.8	491.0
Distribution costs		**(55.0)**	**-**	**(55.0)**	(66.2)	(0.8)	(67.0)	(138.7)
Administrative expenses		**(65.1)**	**(1.7)**	**(66.8)**	(82.0)	(4.4)	(86.4)	(164.2)
Other operating income		**-**	**1.3**	**1.3**	-	1.4	1.4	2.9
Operating profit		**34.2**	**(5.4)**	**28.8**	102.0	(1.2)	100.8	191.0
Share of profit of joint ventures		**0.3**	**-**	**0.3**	0.5	-	0.5	1.1
Finance income	**4**	**0.3**	**0.3**	**0.6**	0.9	1.5	2.4	4.3
Finance costs	**5**	**(19.1)**	**-**	**(19.1)**	(18.3)	-	(18.3)	(29.6)
Profit before taxation		**15.7**	**(5.1)**	**10.6**	85.1	0.3	85.4	166.8
Taxation	**6**	**(8.4)**	**(2.9)**	**(11.3)**	(25.9)	0.1	(25.8)	(50.5)
Profit/(loss) from continuing operations		**7.3**	**(8.0)**	**(0.7)**	59.2	0.4	59.6	116.3
Loss from discontinued operations	**13**	**-**	**-**	**-**	(1.2)	(1.7)	(2.9)	(0.5)
Profit/(loss) for the period		**7.3**	**(8.0)**	**(0.7)**	58.0	(1.3)	56.7	115.8
Attributable to:								
Equity shareholders of the company		**(0.6)**	**(8.0)**	**(8.6)**	47.6	(1.3)	46.3	95.7
Non-controlling interests		**7.9**	**-**	**7.9**	10.4	-	10.4	20.1
		7.3	**(8.0)**	**(0.7)**	58.0	(1.3)	56.7	115.8
(Loss)/earnings per share (cents)	**7**							
Continuing operations:								
Basic				**(0.59)**			3.41	6.66
Diluted				**(0.59)**			3.39	6.60
Continuing and discontinued operations:								
Basic				**(0.59)**			3.21	6.63
Diluted				**(0.59)**			3.19	6.57
Adjusted (loss)/earnings per share	**14 (d)**	**(0.04)**			3.37			6.97

Condensed consolidated statement of comprehensive income
For the half year ended 30 June 2020

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
(Loss)/profit for the period	**(0.7)**	56.7	115.8
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) in respect of retirement benefit schemes	**27.1**	(11.1)	(31.1)
Tax relating to items that will not be reclassified	**-**	2.4	7.3
	27.1	(8.7)	(23.8)
Items that may be reclassified subsequently to profit or loss:			
Gains on cash flow hedges arising during the period	**4.2**	4.8	4.8
Transferred to profit or loss on cash flow hedges	**(0.4)**	(0.2)	(0.3)
Exchange differences on translation of foreign operations	**(13.4)**	(0.3)	(7.7)
	(9.6)	4.3	(3.2)
Other comprehensive income and expense for the period	**17.5**	(4.4)	(27.0)
Net comprehensive income and expense for the period	**16.8**	52.3	88.8
Attributable to:			
Equity shareholders of the company	**9.2**	42.1	69.0
Non-controlling interests	**7.6**	10.2	19.8
	16.8	52.3	88.8

Condensed consolidated statement of financial position
At 30 June 2020

	Note	**30 June 2020 unaudited US$m**	30 June 2019 unaudited US$m	31 December 2019 audited US$m
Non-current assets				
Intangible assets		**289.0**	293.2	291.0
Property, plant and equipment		**261.2**	275.2	276.3
Right-of-use assets		**56.6**	57.7	63.4
Investments in joint ventures		**11.7**	11.1	11.4
Other equity investments		**6.0**	6.1	6.1
Deferred tax assets		**21.5**	21.3	16.2
Pension surpluses		**12.9**	31.6	13.8
Trade and other receivables		**14.0**	16.7	20.1
		672.9	712.9	698.3
Current assets				
Inventories		**186.2**	197.4	172.5
Trade and other receivables		**225.0**	287.2	261.2
Other investments		**0.1**	0.2	0.1
Pension surpluses		**4.7**	4.8	4.7
Cash and cash equivalents	**11 (f)**	**90.7**	124.1	177.4
Non-current assets classified as held for sale	**13**	**-**	0.3	1.5
		506.7	614.0	617.4
Total assets		**1,179.6**	1,326.9	1,315.7
Current liabilities				
Trade and other payables		**(230.3)**	(300.0)	(284.4)
Current income tax liabilities		**(12.7)**	(13.7)	(17.8)
Bank overdrafts and other borrowings		**(14.6)**	(6.6)	(43.8)
Lease liabilities		**(13.4)**	(13.0)	(14.1)
Retirement benefit obligations:				
- Funded schemes		**(15.1)**	(25.9)	(27.5)
- Unfunded schemes		**(6.5)**	(5.9)	(6.2)
Provisions		**(9.1)**	(13.1)	(12.8)
		(301.7)	(378.2)	(406.6)
Net current assets		**205.0**	235.8	210.8
Non-current liabilities				
Trade and other payables		**(20.3)**	(20.7)	(18.2)
Deferred tax liabilities		**(7.4)**	(13.6)	(8.2)
Borrowings		**(283.6)**	(327.8)	(283.5)
Lease liabilities		**(46.5)**	(45.8)	(50.9)
Retirement benefit obligations:				
- Funded schemes		**(45.5)**	(82.3)	(71.6)
- Unfunded schemes		**(91.2)**	(92.2)	(94.5)
Provisions		**(27.9)**	(36.5)	(30.7)
		(522.4)	(618.9)	(557.6)
Total liabilities		**(824.1)**	(997.1)	(964.2)
Net assets		**355.5**	329.8	351.5
Equity				
Share capital	**8**	**89.7**	89.5	89.6
Share premium account		**10.5**	10.5	10.5
Own shares	**8**	**(6.0)**	(5.7)	(5.7)
Translation reserve		**(89.0)**	(68.6)	(75.9)
Capital reduction reserve		**59.8**	59.8	59.8
Other reserves		**252.5**	248.8	248.7
Retained profit/(loss)		**10.5**	(35.2)	(5.9)
Equity shareholders' funds		**328.0**	299.1	321.1
Non-controlling interests		**27.5**	30.7	30.4
Total equity		**355.5**	329.8	351.5

Condensed consolidated statement of changes in equity
For the half year ended 30 June 2020

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained profit/(loss) US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2019 (audited)	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
Other 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 (unaudited)	89.5	10.5	(5.7)	(68.6)	59.8	248.8	(35.2)	299.1	30.7	329.8
Balance as at 1 January 2019 (audited)	88.5	10.4	(6.8)	(68.5)	59.8	244.2	(56.7)	270.9	28.0	298.9
Profit for the year	-	-	-	-	-	-	95.7	95.7	20.1	115.8
Other comprehensive income and expense for the year	-	-	-	(7.4)	-	4.5	(23.8)	(26.7)	(0.3)	(27.0)
Dividends	-	-	-	-	-	-	(24.4)	(24.4)	(17.4)	(41.8)
Issue of ordinary shares	1.1	0.1	-	-	-	-	(1.1)	0.1	-	0.1
Movement in own shares	-	-	1.1	-	-	-	(0.2)	0.9	-	0.9
Share based payments	-	-	-	-	-	-	6.1	6.1	-	6.1
Deferred tax on share schemes	-	-	-	-	-	-	(1.5)	(1.5)	-	(1.5)
Balance as at 31 December 2019 (audited)	**89.6**	**10.5**	**(5.7)**	**(75.9)**	**59.8**	**248.7**	**(5.9)**	**321.1**	**30.4**	**351.5**
(Loss)/profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(8.6)**	**(8.6)**	**7.9**	**(0.7)**
Other comprehensive income and expense for the period	**-**	**-**	**-**	**(13.1)**	**-**	**3.8**	**27.1**	**17.8**	**(0.3)**	**17.5**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10.5)**	**(10.5)**
Issue of ordinary shares	**0.1**	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**-**	**-**	**-**
Purchase of own shares	**-**	**-**	**(3.1)**	**-**	**-**	**-**	**-**	**(3.1)**	**-**	**(3.1)**
Movement in own shares	**-**	**-**	**2.8**	**-**	**-**	**-**	**(2.5)**	**0.3**	**-**	**0.3**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**0.8**	**0.8**	**-**	**0.8**
Deferred tax on share schemes	**-**	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**	**-**	**(0.3)**
Balance as at 30 June 2020 (unaudited)	**89.7**	**10.5**	**(6.0)**	**(89.0)**	**59.8**	**252.5**	**10.5**	**328.0**	**27.5**	**355.5**

Condensed consolidated cash flow statement
For the half year ended 30 June 2020

	Note	**Half year 2020 unaudited US$m**	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Cash inflow from operating activities				
Cash generated from operations	**11 (a)**	**48.5**	69.0	205.4
Interest paid		**(10.3)**	(7.6)	(15.2)
Taxation paid	**11 (b)**	**(23.5)**	(27.0)	(46.3)
Net cash generated by operating activities		**14.7**	34.4	143.9
Cash (outflow)/inflow from investing activities				
Investment income	**11 (c)**	**-**	-	0.3
Net capital expenditure and financial investment	**11 (d)**	**(9.7)**	(19.0)	(39.1)
Acquisitions and disposals	**11 (e)**	**(36.9)**	27.4	25.8
Net cash (absorbed in)/generated by investing activities		**(46.6)**	8.4	(13.0)
Cash outflow from financing activities				
Purchase of own shares		**(3.1)**	-	-
Receipts from exercise of share options		**-**	0.2	0.2
Dividends paid to equity shareholders		**(0.2)**	(16.4)	(24.1)
Dividends paid to non-controlling interests		**(10.5)**	(7.5)	(17.4)
Payment of lease liabilities		**(8.5)**	(7.6)	(17.3)
Net increase/(decrease) in other borrowings		**4.8**	(10.0)	(52.3)
Net cash absorbed in financing activities		**(17.5)**	(41.3)	(110.9)
Net (decrease)/increase in cash and cash equivalents		**(49.4)**	1.5	20.0
Net cash and cash equivalents at beginning of the period		**135.9**	115.7	115.7
Foreign exchange (losses)/gains on cash and cash equivalents		**(3.4)**	0.3	0.2
Net cash and cash equivalents at end of the period	**11 (f)**	**83.1**	117.5	135.9
Reconciliation of net cash flow to movement in net debt				
Net (decrease)/increase in cash and cash equivalents		**(49.4)**	1.5	20.0
Net (increase)/decrease in other borrowings		**(4.8)**	10.0	52.3
Change in net debt resulting from cash flows (Free cash flow)	**14 (e)**	**(54.2)**	11.5	72.3
Increase in lease liabilities on adoption of IFRS 16		**-**	(57.7)	(57.7)
Net movement in lease liabilities during the period following the adoption of IFRS 16		**3.1**	(0.2)	(6.8)
Other non-cash movements		**(0.4)**	(0.4)	(0.7)
Foreign exchange (losses)/gains		**(1.0)**	0.4	0.7
(Increase)/decrease in net debt		**(52.5)**	(46.4)	7.8
Net debt at start of period		**(214.9)**	(222.7)	(222.7)
Net debt at end of period	**11 (f)**	**(267.4)**	(269.1)	(214.9)

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 2020 have been reviewed but have not been audited. The condensed consolidated financial statements for the equivalent period in 2019 were also reviewed but not audited.

The condensed consolidated 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 2019, 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 2019 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). The financial information for the year ended 31 December 2019 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 2019 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 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 'Business combinations' – Definition of a business;
- Amendments to IFRS 9, IAS 39 and IFRS 17 – Interest rate benchmark reform; and
- Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' – Definition of material.

The adoption of these standards and amendments has not had a material impact on the financial statements of the Group.

Amendments to IFRS 16 'Leases' – COVID-19-Related Rent Concessions which is effective for annual periods beginning on or after 1 June 2020 has not been early adopted in the condensed consolidated financial statements.

The preparation of condensed consolidated financial information, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial information, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. In preparing the condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2019.

1. Basis of preparation (continued)

Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

In assessing the Group's going concern position, the Directors have considered a number of factors, including the current balance sheet position and available liquidity, the principal and emerging risks which could impact the performance of the Group and compliance with borrowing covenants. In order to assess the going concern status of the Group management has prepared a base case scenario, where sales gradually improve over the assessment period albeit still not to pre-pandemic levels as well as three severe but plausible downside scenarios:

- Demand recovers at a slower rate than the base case over the assessment period;
- Periodic disruption from rolling country lockdowns in Q4 2020, albeit not as severe as seen in Q2; and
- Further deterioration in net working capital metrics.

The base case modelling includes the impact of the Group's response to COVID-19, as set out in the operating review, including flexing of our cost base, reduction of capital expenditure, and deferral of deficit repair contributions for the UK pension scheme. The severe but plausible downside scenarios include further management actions that would be deployed if required (for example further reduction in costs).

Reverse stress tests flexing sales, gross margin and net working capital assumptions have been modelled to determine what circumstance would be required to either reduce headroom to nil on committed borrowing facilities or breach borrowing covenants, whichever occurred first. The reverse stress tests also include further controllable management actions that could be deployed if required. The outcome of all three reverse stress tests was that the leverage covenant would be breached, however, at the breaking point in each of the three tests the Group still maintained a comfortable level of liquidity on committed borrowing facilities. The Directors consider the likelihood of the conditions in the reverse stress tests occurring to be remote.

Liquidity headroom

The Group entered 2020 with a robust Balance Sheet, generating healthy levels of cash, and with comfortable headroom on banking covenants, which places the Group in a strong position to manage through this period of uncertainty. As at 30 June 2020 the Group's net debt (excluding IFRS16 leases) was $207 million. The Group's committed debt facilities total $575 million across both its Banking and US Private Placement group, with a range of maturities from late 2022 through to 2027, as of 30 June 2020 the Group has around $270 million of headroom against these committed banking facilities. Headroom has increased from the $230 million committed headroom noted in the Group's May trading update and is largely as a result of the appropriate actions taken to manage liquidity through the initial period of uncertainty, as well as some benefit from the unwind of net working capital as a result of the lower activity levels seen in Q2. The Group's available liquidity was increased further following the confirmation by the Bank of England of our eligibility to access up to £300 million of further funding under its COVID Corporate Financing Facility (CCFF) on 17 July 2020.

In the base case and severe but plausible downside scenarios liquidity is comfortable in all cases (before considering the additional liquidity provided by the CCFF) throughout the assessment period.

Covenant testing

The Group's committed borrowing facilities are subject to ongoing covenant testing. Covenants are measured twice a year, at full year and half year and are measured under frozen accounting standards and therefore exclude the effects of IFRS 16. The financial covenants under the borrowing agreements are for leverage (net debt / EBITDA) less than 3.0 and interest cover (EBITDA / interest charge) to be in excess of 4.0.

All banking covenants tests were met comfortably at 30 June 2020, with leverage of 1.3x and interest cover of 9.6x despite the significant impact on Group profitability from COVID-19 in Q2. The base case forecast indicates that banking covenants will be comfortably met at the December 2020 and June 2021 test dates.

Under all the reasonable downside scenarios covenant compliance is still projected to be achieved at both December 2020 and June 2021, although with reduced but adequate headroom.

1. Basis of preparation (continued)

Going concern (continued)

Conclusion

In conclusion, after reviewing the base case, the severe but plausible downside scenarios and considering the remote likelihood of the scenarios in the reverse stress tests occurring as well as having considered the uncertainty relating to COVID-19 and the mitigating actions available, the Directors have formed the judgement that, at the time of approving the condensed consolidated financial statements, there are no material uncertainties that cast doubt on the Group's going concern status and that it is appropriate to prepare the condensed consolidated financial statements on the going concern basis.

Principal exchange rates

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

		June 2020	June 2019	December 2019
Average	Sterling	**0.79**	0.77	0.79
	Euro	**0.91**	0.89	0.90
	Brazilian Real	**4.92**	3.85	3.95
	Chinese Renminbi	**7.03**	6.79	6.91
	Indian Rupee	**74.15**	69.99	70.41
	Turkish Lira	**6.49**	5.62	5.78
Period end	Sterling	**0.81**	0.79	0.75
	Euro	**0.89**	0.88	0.89
	Brazilian Real	**5.47**	3.83	4.02
	Chinese Renminbi	**7.07**	6.87	6.96
	Indian Rupee	**75.54**	68.95	71.35
	Turkish Lira	**6.85**	5.79	5.95

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.

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 2020	Apparel & Footwear unaudited US$m	Performance Materials unaudited US$m	Total unaudited US$m
Continuing operations			
Revenue	**372.1**	**163.7**	**535.8**
Segment profit	**27.3**	**6.9**	**34.2**
Exceptional and acquisition related items			**(5.4)**
Operating profit			**28.8**
Share of profits of joint ventures			**0.3**
Finance income			**0.6**
Finance costs			**(19.1)**
Profit before taxation from continuing operations			**10.6**

Six months ended 30 June 2019	Apparel & Footwear unaudited US$m	Performance Materials unaudited US$m	Total unaudited 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 profit of joint ventures			0.5
Finance income			2.4
Finance costs			(18.3)
Profit before taxation from continuing operations			85.4

2. Segmental analysis (continued)

Year ended 31 December 2019	Apparel & Footwear audited US$m	Performance Materials audited US$m	Total audited US$m
Continuing operations			
Revenue	1,063.1	325.6	1,388.7
Segment profit	156.3	41.7	198.0
Exceptional and acquisition related items			(7.0)
Operating profit			191.0
Share of profits of joint ventures			1.1
Finance income			4.3
Finance costs			(29.6)
Profit before taxation from continuing operations			166.8

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Exceptional and acquisition related items are not allocated to segments. In addition 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 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Continuing operations			
Primary geographic markets			
Asia	**283.4**	**395.4**	799.7
Americas	**148.6**	**166.9**	323.2
EMEA	**103.8**	**142.3**	265.8
Total	**535.8**	**704.6**	1,388.7
Continuing operations			
Apparel & Footwear	**372.1**	**539.4**	1,063.1
Performance Materials	**163.7**	**165.2**	325.6
Total	**535.8**	**704.6**	1,388.7
Timing of revenue recognition			
Goods transferred at a point in time	**531.5**	**697.9**	1,376.6
Software solutions services transferred over time	**4.3**	**6.7**	12.1
Total	**535.8**	**704.6**	1,388.7

The Coats Digital 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 on a consistent basis with the previous reporting period to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 14.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, gains or losses arising from significant one off changes to the assumptions underlying the defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration.

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, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

Total exceptional and acquisition related items charged to operating profit for the six months ended 30 June 2020 were $5.4 million (six months ended 30 June 2019: $1.2 million; year ended 31 December 2019: $7.0 million). This comprises of exceptional items for the six months ended 30 June 2020 of $3.7 million (six months ended 30 June 2019: credit of $1.4 million; year ended 31 December 2019: $4.8 million) and acquisition related items for the six months ended 30 June 2020 of $1.7 million (six months ended 30 June 2019: $2.6 million; year ended 31 December 2019: $2.2 million). Tax in respect of exceptional and acquisition related items is set out in note 6.

Exceptional items

Exceptional items charged/(credited) to operating profit are set out below:

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Exceptional items:			
Cost of sales:			
Impairment charges	**5.0**	-	-
Brazil indirect taxes	**-**	(2.8)	(3.5)
Connecting for Growth programme reorganisation costs:			
- Cost of sales	**-**	0.2	3.1
- Distribution costs	**-**	0.8	2.8
- Administrative expenses	**-**	1.8	5.3
	-	2.8	11.2
Profit from sale of property:			
- Other operating income	**(1.3)**	(1.4)	(2.9)
Total exceptional items charged/(credited) to operating profit from continuing operations	**3.7**	(1.4)	4.8

3. Exceptional and acquisition related items (continued)

Impairment charges - At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets are estimated in order to determine the extent of the impairment loss, if any. During the six months ended 30 June 2020, following this review impairment charges totalling $5.0 million were made in smaller markets in EMEA ($4.2 million relating to property, plant and equipment and $0.8 million relating to right-of-use assets). The impairment charges are attributable to the increased economic uncertainty as a result of COVID-19. The impairment charges in these markets represent a full write down of property, plant and equipment and right-of-use assets, except for owned land and buildings of $1.6 million which is not considered to be impaired. In determining the recoverable amount of these assets, the most recent trading activity was considered and projected cash flows reflected the economic uncertainty resulting from the COVID-19 pandemic.

Connecting for Growth programme – property disposals - During the six months ended 30 June 2020 a profit of $1.3 million was made from the sale of a property in a peripheral market. This related to the strategic Connecting for Growth transformation programme which was completed during 2019.

Exceptional items during 2019 are set out below:

Connecting for Growth programme – Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation. The programme finished in 2019. The programme focused on simplification across many aspects of the organisation and included transitioning from market-focused support functions to realigned globally integrated support functions.

Exceptional reorganisation costs of $11.2 million were incurred in the year ended 31 December 2019 (six months ended 30 June 2019: $2.8 million) comprising severance costs of $7.4 million (six months ended 30 June 2019: $2.2 million), fixed asset disposals and write offs of $2.2 million (six months ended 30 June 2019: $nil) and closure and other one-off costs of $1.6 million (six months ended 30 June 2019: $0.6 million).

Connecting for Growth programme - property disposals – During the year ended 31 December 2019 a profit of $2.9 million (six months ended 30 June 2019: $1.4 million) was made from the sale of properties in peripheral markets in connection with the Connecting for Growth Programme.

Brazil indirect taxes – During the year ended 31 December 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 were recognised in the results for the year ended 31 December 2019 with an exceptional credit of $3.5 million included in cost of sales (six months ended 30 June 2019: $2.8 million) and exceptional interest income recognised of $2.6 million (six months ended 30 June 2019: $1.5 million). Exceptional interest income of $0.3 million has also been recognised during the six months ended 30 June 2020 (see note 4).

Legal filings had been made previously 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 this. At this stage it is not practicable to quantify the potential amount of this contingent asset.

Exceptional items: Discontinued operations – During the year ended 31 December 2019 exceptional charges in relation to the sale of the North America Crafts business and included in discontinued operations were $0.6 million (six months ended 30 June 2019: $1.7 million)

3. Exceptional and acquisition related items (continued)

Acquisition related items

Acquisition related items are set out below:

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Administrative expenses:			
Acquisition earnouts and contingent consideration	**0.1**	**1.2**	(1.7)
Acquisition transaction costs	**-**	**-**	1.0
Amortisation of acquired intangibles	**1.6**	**1.4**	2.9
Total acquisition related items charged to operating profit	**1.7**	**2.6**	2.2

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 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Income from investments	**-**	0.1	0.1
Other interest receivable and similar income	**0.6**	2.3	4.2
	0.6	2.4	4.3

Other interest receivable and similar income for the six months ended 30 June 2020 includes exceptional interest income of $0.3 million (six months ended 30 June 2019: $1.5 million; year ended 31 December 2019: $2.6 million) relating to Brazil refunds of indirect taxes (see note 3 for further details).

5. Finance costs

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Interest on bank and other borrowings	**6.1**	7.6	14.5
Interest expense on lease liabilities	**1.9**	1.8	3.7
Net interest on pension scheme assets and liabilities	**2.4**	2.8	5.5
Other finance costs including unrealised gains and losses on foreign exchange contracts	**8.7**	6.1	5.9
	19.1	18.3	29.6

6. Taxation

The taxation charges for the six months ended 30 June 2020 and 30 June 2019 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 2020 the tax charge in respect of exceptional and acquisition related items was $2.9 million (six months ended 30 June 2019: credit of $0.1 million; year ended 31 December 2019: $nil).

Included within the exceptional tax charge for the six months ended 30 June 2020 of $2.9 million is a charge of $1.9 million relating to deferred tax assets that have been written down as they are no longer expected to be realised based on future expected taxable profits due to COVID-19 impacts.

7. (Loss)/earnings per share

The calculation of basic (loss)/earnings per ordinary share from continuing operations is based on the (loss)/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 (loss)/earnings per ordinary share from continuing and discontinued operations is based on the (loss)/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 to the extent that this does not dilute a loss. 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 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
(Loss)/profit from continuing operations attributable to equity shareholders	**(8.6)**	49.2	96.2
(Loss)/profit from continuing and discontinued operations attributable to equity shareholders	**(8.6)**	46.3	95.7

	Half year 2020 unaudited Number of shares m	Half year 2019 unaudited Number of shares m	Full year 2019 audited Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,456.4**	1,443.0	1,443.8
Adjustment for share options and LTIP awards	**-**	6.2	13.7
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,456.4**	1,449.2	1,457.5

	Half year 2020 unaudited cents	Half year 2019 unaudited cents	Full year 2019 audited Cents
Continuing operations:			
Basic (loss)/earnings per ordinary share	**(0.59)**	3.41	6.66
Diluted (loss)/earnings per ordinary share	**(0.59)**	3.39	6.60
Continuing and discontinued operations:			
Basic (loss)/earnings per ordinary share	**(0.59)**	3.21	6.63
Diluted (loss)/earnings per ordinary share	**(0.59)**	3.19	6.57

8. Issued share capital

During the six months ended 30 June 2020 the Company issued 1,234,543 Ordinary Shares of 5p each (six months ended 30 June 2019: 16,019,196; year ended 31 December 2019: 17,324,009) 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 2020	1,444,816,041	89.6
Issue of ordinary shares	1,234,543	0.1
At 30 June 2020	**1,446,050,584**	**89.7**

The own shares reserve of $6.0 million at 30 June 2020 (31 December 2019: $5.7 million; 30 June 2019: $5.7 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 30 June 2020 was 12,317,109 (31 December 2019: 14,591,071; 30 June 2019: 14,618,527).

9. Dividends

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
2018 final dividend paid – 1.16 cents per share	**-**	16.6	16.6
2019 interim dividend paid – 0.55 cents per share	**-**	-	7.8
	-	16.6	24.4

On 27 March 2020 the Company announced it had taken the decision, given the uncertainties caused by the COVID-19 pandemic, to cancel the proposed 2019 final dividend payment of 1.30 cents per ordinary share which was due to be paid in May 2020. The Directors do not propose the payment of an interim dividend for the six months ended 30 June 2020.

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 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 allocation, CC presented 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 or even smaller de micromis party. The allocation process is expected to be completed toward the end of 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 or even smaller de micromis 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 was recorded as an exceptional item to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 30 June 2020, $10.6 million of this provision had been utilised. The remaining provision at 30 June 2020, taking into account insurance reimbursement, was $13.6 million (31 December 2019: $14.6 million). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis or even smaller de micromis 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, additional provisions could be recorded and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

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

11. Notes to the condensed consolidated cash flow statement

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

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Operating profit	**28.8**	100.8	191.0
Depreciation of owned property, plant and equipment	**15.3**	14.9	29.9
Depreciation of right-of-use assets	**8.1**	7.1	15.2
Amortisation of intangible assets	**3.4**	4.3	8.0
Decrease/(increase) in inventories	**1.5**	(12.3)	10.4
Decrease/(increase) in debtors	**50.4**	(28.8)	(6.5)
Decrease in creditors	**(49.2)**	(2.1)	(13.8)
Provision and pension movements	**(13.8)**	(15.6)	(33.5)
Currency and other non-cash movements	**4.1**	2.5	4.4
Discontinued operations	**(0.1)**	(1.8)	0.3
Cash generated from operations	**48.5**	69.0	205.4

b) Taxation paid

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Overseas tax paid	**(23.5)**	(27.0)	(46.3)

c) Investment income

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Dividends received from joint ventures	**-**	-	0.3

d) Capital expenditure and financial investment

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Acquisition of property, plant and equipment and intangible assets	**(12.5)**	(22.0)	(44.3)
Disposal of other equity investments	**-**	0.4	0.4
Disposal of property, plant and equipment	**2.8**	2.1	4.3
Discontinued operations	**-**	0.5	0.5
	(9.7)	(19.0)	(39.1)

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

e) Acquisitions and disposals

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Acquisition of businesses	**(36.9)**	(4.2)	(4.9)
Disposal of businesses	**-**	31.6	30.7
	(36.9)	27.4	25.8

f) Summary of net debt

	30 June 2020 unaudited US$m	30 June 2019 unaudited US$m	31 December 2019 audited US$m
Cash and cash equivalents	**90.7**	124.1	177.4
Bank overdrafts	**(7.6)**	(6.6)	(41.5)
Net cash and cash equivalents	**83.1**	117.5	135.9
Other borrowings	**(290.6)**	(327.8)	(285.8)
Net debt excluding lease liabilities	**(207.5)**	(210.3)	(149.9)
Lease liabilities	**(59.9)**	(58.8)	(65.0)
Total net debt`	**(267.4)**	(269.1)	(214.9)

For financial covenant purposes, the Group's leverage is calculated on the basis of net debt without IFRS 16 lease liabilities and at the Coats Group Finance Company Limited level. Net debt excluding IFRS 16 lease liabilities at the Coats Group Finance Company Limited level at 30 June 2020 was $208.1 million (30 June 2019: $211.1 million; 31 December 2019: $150.8 million).

12. Acquisitions

On 26 November 2019 the Group announced a binding agreement to acquire the trade and assets of Pharr High Performance Yarns ("Pharr HP"), a market leading manufacturer of high performance engineered yarns, based in McAdenville, North Carolina, US. Pharr HP specialises in providing technical yarn solutions to the markets of Industrial Thermal Protection, Defence and Fire Service industries. Its manufacturing capabilities and customer base provide the Group with further expertise within Personal Protection, a key end-use market in the Performance Materials operating segment. Other parts of Pharr, such as the carpet yarns and speciality flooring products business were not included as part of the acquisition. The acquisition was completed on 10 February 2020.

The initial consideration transferred on the acquisition date to acquire the Pharr HP business was $37 million. An adjustment to the consideration of $0.1 million was received in June 2020 following finalisation of certain completion consideration adjustments based on the amount of net working capital at the acquisition date.

12. Acquisitions (continued)

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

	Provisional fair value recognised unaudited US$m
Assets	
Intangible assets	0.6
Property, plant and equipment	3.9
Right-of-use assets	3.7
Inventories	23.8
Trade and other receivables	14.3
	46.3
Liabilities	
Trade and other payables	(5.9)
Lease liabilities	(3.7)
Total identifiable net assets acquired at fair value	36.7
Goodwill recognised on acquisition (provisional)	0.2
	36.9
Purchase consideration paid	36.9
Total consideration	36.9

In the provisional accounting, adjustments are made to the book values of the net assets of the business 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 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 trade names of $0.6 million with provisional residual goodwill arising of $0.2 million.

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.

Pharr HP revenues of $33.5 million and profit before tax of $0.1 million from the date of acquisition to 30 June 2020 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 $45.7 million and the profit before tax would have been $0.3 million based on unaudited management accounts for the six months ended 30 June 2020.

Transaction costs relating to the acquisition of $0.9 million were expensed and included in administrative expenses in the condensed consolidated income statement for the year ended 31 December 2019.

The total cash outflow in the six months ended 30 June 2020 relating to the acquisition of Pharr HP was $37.3 million representing the consideration paid of $36.9 million and transaction costs paid of $0.4 million.

13. Discontinued operations and assets and liabilities held for sale

a) Discontinued operations

The results of the discontinued operations are presented below. Unless stated, all amounts relate to the North America Crafts business which was sold on 20 February 2019.

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Revenue	**-**	14.8	14.8
Cost of sales	**-**	(10.4)	(10.4)
Gross profit	**-**	4.4	4.4
Distribution costs	**-**	(3.7)	(3.7)
Administrative expenses	**-**	(1.9)	(2.4)
Other operating income	**-**	-	1.6
Operating loss and loss before taxation	**-**	(1.2)	(0.1)
Tax on loss	**-**	-	0.2
(Loss)/profit from discontinued operations for the period	**-**	(1.2)	0.1
Exceptional loss on disposal of North America Crafts	**-**	(2.2)	(1.1)
Exceptional profit on disposal of legacy UK Crafts property		0.5	0.5
Total loss from discontinued operations	**-**	(2.9)	(0.5)

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).

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

	Half year 2020 unaudited cents	Half year 2019 unaudited cents	Full year 2019 audited cents
Loss per ordinary share from discontinued operations:			
Basic loss per share	**-**	(0.20)	(0.03)
Diluted loss per ordinary share	**-**	(0.20)	(0.03)

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

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Net cash (outflow)/inflow from operating activities	**(0.1)**	(1.8)	0.3
Net cash inflow from investing activities	**-**	0.5	0.5
Net cash flows from discontinued operations	**(0.1)**	(1.3)	0.8

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

b) Assets held for sale

The non-current assets held for sale are property, plant and equipment of $nil (31 December 2019: $1.5 million, 30 June 2019: $0.3 million).

14. Alternative performance measures

This half year financial report contains both statutory measures and alternative performance measures which are presented on a consistent basis with the previous reporting period and, in management's view, 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 2019.

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

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

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

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

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

14. Alternative performance measures (continued)

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

Revenue	**Half year 2020 unaudited US$m**	Half year 2019 unaudited US$m	% Decline
Revenue from continuing operations	**535.8**	704.6	(24%)
Constant currency adjustment	**-**	(22.0)	
Revenue on a CER basis	**535.8**	682.6	(21%)
Revenue from acquisitions	**(33.6)**	-	
Organic revenue on a CER basis	**502.2**	682.6	(26%)

Operating profit	**Half year 2020 unaudited US$m**	Half year 2019 unaudited US$m	% Decline
Operating profit from continuing operations[1]	**28.8**	100.8	(71)%
Exceptional and acquisition related items (note 3)	**5.4**	1.2	
Adjusted operating profit from continuing operations	**34.2**	102.0	(67)%
Constant currency adjustment	**-**	(2.5)	
Adjusted operating profit on a CER basis	**34.2**	99.5	(66)%
Operating loss from acquisitions	**0.1**	-	
Organic adjusted operating profit on a CER basis	**34.3**	99.5	(66)%

[1] 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 of owned fixed assets and right-of-use assets, amortisation and impairments and excluding exceptional and acquisition related items.

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

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Operating profit from continuing operations[1]	**28.8**	100.8	191.0
Exceptional and acquisition related items (note 3)	**5.4**	1.2	7.0
Adjusted operating profit from continuing operations	**34.2**	102.0	198.0
Depreciation of owned property, plant and equipment	**15.3**	14.9	29.9
Amortisation of intangible assets	**1.8**	2.9	5.1
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**51.3**	119.8	233.0
Depreciation of right-of-use assets	**8.1**	7.1	15.2
Adjusted EBITDA	**59.4**	126.9	248.2

Adjusted EBITDA on a last twelve months basis to 30 June 2020 was $180.7 million.

Adjusted EBITDA on a last twelve months basis to 30 June 2020 of $180.7 million is the adjusted EBITDA for the six months ended 30 June 2020 of $59.4 million plus the adjusted EBITDA for the year ended 31 December 2019 of $248.2 million less the adjusted EBITDA for the six months ended 30 June 2019 of $126.9 million.

Net debt including lease liabilities under IFRS 16 was $267.4 million at 30 June 2020 (31 December 2019: $214.9 million; 30 June 2019: $269.1 million).

This gives a leverage ratio of net debt including lease liabilities to Adjusted EBITDA of 1.5 (31 December 2019: 0.9).

On a pre-IFRS 16 basis adjusted EBITDA on a last twelve months basis to 30 June 2020 was $164.5 million (30 June 2019: $233.4 million)

Net debt excluding lease liabilities under IFRS 16 was $207.5 million at 30 June 2020 (31 December 2019: $149.9 million; 30 June 2019: $210.3 million).

This gives a leverage ratio on a pre-IFRS 16 basis of 1.3 (31 December 2019: 0.6; 30 June 2019: 0.9)

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

[1] 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)

c) Underlying effective tax rate

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

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

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Profit before taxation	**10.6**	85.4	166.8
Exceptional and acquisition related items (note 3)	**5.1**	(0.3)	4.4
Net interest on pension scheme assets and liabilities (note 5)	**2.4**	2.8	5.5
Underlying profit before taxation from continuing operations	**18.1**	87.9	176.7
Taxation charge from continuing operations	**11.3**	25.8	50.5
Tax (charge)/credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**(2.7)**	0.3	0.4
Underlying taxation charge	**8.6**	26.1	50.9
Underlying effective tax rate	**48%**	30%	29%

d) Adjusted (loss)/earnings per share

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

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
(Loss)/profit from continuing operations	**(0.7)**	59.6	116.3
Non-controlling interests	**(7.9)**	(10.4)	(20.1)
(Loss)/profit from continuing operations attributable to equity shareholders	**(8.6)**	49.2	96.2
Exceptional and acquisition related items net of non-controlling interests (note 3)	**5.1**	(0.3)	4.4
Tax charge/(credit) in respect of exceptional and acquisition related items	**2.9**	(0.1)	-
Adjusted (loss)/profit from continuing operations	**(0.6)**	48.8	100.6
Weighted average number of Ordinary Shares	**1,456,414,822**	1,443,019,610	1,443,824,641
Adjusted (loss)/earnings per share (cents)	**(0.04)**	3.37	6.97
Adjusted (loss)/earnings per share (decline %)	**(101%)**		

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

14. 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.

Consistent with previous periods, adjusted free cash flow is defined as cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, purchase of own shares by the Employee Benefit Trust and payments to the UK pension scheme.

Adjusted free cash flow measures the Group's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.

	Half year 2020 unaudited US$m	Half year 2019 unaudited US$m	Full year 2019 audited US$m
Change in net debt resulting from cash flows (free cash flow)	**(54.2)**	11.5	72.3
Acquisition of businesses (note 12)	**37.3**	4.2	4.9
Disposal of businesses	**-**	(31.6)	(30.7)
Net cash flows from discontinued operations (note 13)	**0.1**	1.3	(0.8)
Net cash outflow in respect of exceptional reorganisation costs	**(1.0)**	2.9	4.3
Payments to UK pension scheme	**8.5**	11.9	26.7
Net cash flows in respect of other exceptional and acquisition related items	**0.7**	4.3	6.2
Purchase of own shares by Employee Benefit Trust	**3.1**	-	-
Receipts from exercise of share options	**-**	(0.2)	(0.2)
Dividends paid to equity shareholders	**0.2**	16.4	24.1
Tax outflow in respect of adjusted cash flow items	**-**	0.2	-
Adjusted free cash flow	**(5.3)**	20.9	106.8

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 2020 unaudited US$m	30 June 2019 unaudited US$m	31 December 2019 audited US$m
Operating profit before exceptional and acquisition related items on a last twelve months' basis[1]	**130.2**	197.8	198.0
Non-current assets			
Acquired intangible assets	**40.4**	43.3	41.8
Property, plant and equipment	**261.2**	275.2	276.3
Right-of-use assets	**56.6**	57.7	63.4
Trade and other receivables	**14.0**	16.7	20.1
Current assets			
Inventories	**186.2**	197.4	172.5
Trade and other receivables	**225.0**	287.2	261.2
Current liabilities			
Trade and other payables	**(230.3)**	(300.0)	(284.4)
Lease liabilities	**(13.4)**	(13.0)	(14.1)
Non-current liabilities			
Trade and other payables	**(20.3)**	(20.7)	(18.2)
Lease liabilities	**(46.5)**	(45.8)	(50.9)
Capital employed	**472.9**	498.0	467.7
ROCE	**28%**	40%	42%

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

15. Fair value of assets and liabilities

As at 30 June 2020 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 2020	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	**1.8**	**-**	**1.8**	**-**
Financial assets measured at fair value through the statement of other comprehensive income:				
Derivatives designated as effective hedging instruments	**5.3**	**-**	**5.3**	**-**
Other investments	**6.2**	**1.2**	-	**5.0**
Total	**13.3**	**1.2**	**7.1**	**5.0**

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

31 December 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	2.9	-	2.9	-
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	6.2	1.2	-	5.0
Total	10.4	1.2	4.2	5.0

15. Fair value of assets and liabilities (continued)

Financial liabilities measured at fair value

30 June 2020	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	**(5.1)**	-	**(5.1)**	-
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**(0.1)**	**-**	**(0.1)**	**-**
Total	**(5.2)**	-	**(5.2)**	-

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)	-

31 December 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	(1.5)	-	(1.5)	-
Total	(1.5)	-	(1.5)	-

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

16. Principal risks and uncertainties

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 2019. These principal risks and uncertainties are as follows:

Strategic risks

1. Appropriate talent and capability development

External risks

2. Economic risk
3. Cyber risk
4. Environmental non-performance risk

Operational risks

5. Health and Safety risk
6. Risk of supplier non-performance and/or unavailability and/or price increases of raw materials
7. Bribery and anti-competitive behaviour risk

Legacy risks

8. Pension scheme deficit funding risk
9. Lower Passaic River Legacy environmental matter risk

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 2019 on pages 31 to 39, a copy of which is available on the Group's website, www.coats.com.

COVID-19

In addition to the ongoing general risk landscape we, like other companies, have since early 2020 been responding to and mitigating the immediate and ongoing impacts of the COVID-19 pandemic, and preparing for the recovery period. During this period, the Group has been focussing on three key priorities, namely: (i) continuing to ensure the health and safety of our employees; (ii) cash, liquidity and working capital management; and (iii) supporting our customers and maintaining the critical elements of our supply chain. This situation creates both risks and opportunities for the Group, with lessons learned, as well as a continuous assessment of the key commercial considerations, being built into our ongoing business continuity, commercial and strategic business planning. Throughout this period, the Board has overseen the work of the Group Executive Team in developing a playbook to respond to the challenges – including a communication strategy to ensure that our people are kept safe, updated, focussed and engaged – and to prepare to leverage opportunities during the recovery period.

As a result of all this, the updates to the principal risk trends and mitigating actions are as follows:

2 - Economic risk arising from demand uncertainty – the COVID-19 pandemic has had a significant impact on GDP in our markets and demand for our products in the second quarter of 2020, and the Group's organic revenues reduced by 45% on a CER basis during that period, There could also be longer term implications for regional supply chains. In light of all this, we consider that the trend for this risk continues to be "increasing". The Group continues to monitor economic conditions, and any direct or indirect influence they might have on our business, including through their influence on consumer attitudes and behaviours. Our global reach and local knowledge give us the agility and insights needed to operate and develop our business prudently and successfully during periods of economic volatility. The Group's response to COVID-19 is set out above. Additionally the Group's global footprint allows us to quickly respond to any changes in regional supply chains that may arise as a result of the pandemic (see further below).

16. Principal risks and uncertainties (continued)

3 - Cyber risk – with bad actors looking to take wrongful advantage of the current crisis where many of our corporate IT users are working from home, we consider that the trend for this risk has gone up from “stable” to “increasing” in light of this general current external environment. We have continued to focus on mitigating the risk of phishing and other cyber security risks through continued training and awareness of all IT users as well as enhancing our security tools at the end point (each laptop / desktop). In addition to this, the security operation centre (SOC), which monitors activities in all our end user devices and servers, detects malware and immediately isolates it ensuring the virus does not infiltrate our network.

5 - Health and safety risk – at this time, we consider that the trend for overall Health and Safety risk has gone up from “stable” to “increasing” due to the continued increase of COVID-19 cases around the world and the asymptomatic nature of the virus. Throughout the pandemic, our top priority has remained ensuring the health and safety of our employees, including in relation to the COVID-19 virus. We have a comprehensive control package implemented at all locations which includes widely accepted control measures and comprehensive case tracing. To date, 349 employees and temporary or 3rd party workers have been confirmed with COVID-19. While we are seeing an increase in COVID-19 cases contracted outside of Coats by employees, our extensive prevention controls implemented are highly effective in stopping cases from transmitting internally.

6 - Risk of supplier non-performance and/or unavailability and/or price increases of raw materials – given the potential impact of COVID-19 on suppliers around the world, we consider that the trend for this risk has gone up from “stable” to “increasing”. Notwithstanding that, we have to date successfully mitigated the risk of supply chain disruption including through close co-operation with key suppliers throughout our supply chain and maintaining safety buffers for critical product groups.. We implemented a new collaborative platform to support supplier risk management incorporating regular supplier feedback and market intelligence. Additionally, our unwavering focus on maintaining supply has helped Coats to support through these difficult times. It has also already delivered new opportunities and new customer relationships as we have been able to leverage our global footprint, flexibility and customer service offering successfully to deliver high quality products at speed.

8 - Pension scheme deficit funding risk - given the increased volatility in asset prices and reduction in discount rates that have been seen in the general market following the COVID-19 outbreak, we consider that the risk trend for this risk has gone up from “stable” to “increasing”. In agreement with the trustees of the Coats UK Pension Scheme, we agreed to defer the deficit recovery payments for 2020 (April to December inclusive), to provide an additional c.$17 million of headroom cover against our committed debt facilities during this year. The catch up on these payments is currently anticipated to commence in mid-2021 and to be evenly spread over a period of around 18 months. We will continue to pay the scheme administrative expenses during this time (c.$5 million per annum). While the pension scheme is impacted by economic conditions, it is over 85% hedged against interest rate and inflation movements by reference to the technical provisions liability and holds less than 10% of its assets in equities. The next triennial valuation will have an effective date of 31 March 2021.

17. Related party transactions

There have been no related party transactions or changes in related party transactions described in the 2019 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.

18. Directors

The following persons were directors of Coats Group plc during the half year ended 30 June 2020 and up to the date of this report:

M Clasper CBE
R Sharma
S Boddie
N Bull
A Fahy
D Gosnell OBE
H Lu
F Philip
A Rosling CBE (Resigned 11 June 2020)

J Sigurdsson will join the Board as a Non-Executive Director, effective 1 October 2020. As announced on 29 July 2020 J Callaway will join the Board as an Executive Director with effect from a date that will be announced in due course. S Boddie is to retire from Coats with effect from 31 March 2021.

19. Publication

This statement will be available at the registered office of the Company, 4 Longwalk Road, Stockley Park, Uxbridge, 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 18 to the Condensed Consolidated Financial Statements.

By order of the Board,

M Clasper
Chairman
13 August 2020

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Registered in England and Wales No. 103548