Annual Report 2014

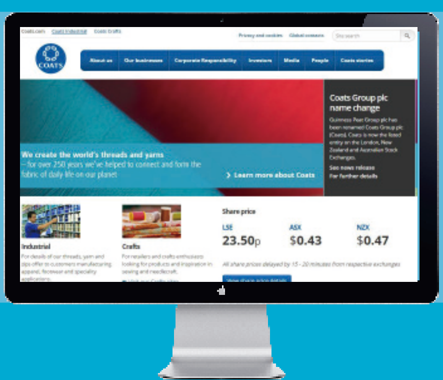
Coats Group plc

Formerly known as Guinness Peat Group plc

Guinness Peat Group plc has been renamed and is now Coats Group plc, operating under a single combined Board of Directors.

These changes establish Coats Group plc as the standalone, listed entity and signal its return to the market in the 125th anniversary year of its initial listing on the London Stock Exchange.

1. This Annual Report is for the year ended 31 December 2014, throughout which the company was known as Guinness Peat Group plc (‘**GPG**’ or ‘**the Company**’).
2. On 26 February 2015, Guinness Peat Group plc was renamed Coats Group plc. All references in this document to ‘**GPG**’ or ‘**the Company**’ refer to Coats Group plc (formerly known as Guinness Peat Group plc) and all references to ‘**Group**’ refer to Coats Group plc and its subsidiaries.
3. All references to ‘Coats plc’ refer to the subsidiary operating entity and ‘Coats Group Limited financial information’ relates to the unaudited consolidated results of Coats Group Limited (‘**Coats**’) which are included within the audited consolidated financial information of GPG, now Coats Group plc.
4. All references to ‘Parent Group’ refer to the central investment activities of the ‘the Company’.



For more information about Coats Group plc – latest news and products, financial performance, investor Information business operations, CR approach and heritage
www.coats.com

Coats Industrial
www.coatsindustrial.com

Coats Crafts
www.makeitcoats.com

Contents

2014 Financial summary

GPG

Operating profit

£64m

(2013: £41m)

Net attributable profit

£9m

(2013: £23m)

Coats

Revenue

$1,686m

(£1,023m)
(2013: $1,704m / £1,089m)

Pre-exceptional operating profit[a]

$131m

(£79m)
(2013: $133m / £85m)

Pre-exceptional net attributable profit[ac]

$45m

(£27m)
(2013: $37m / £24m)

Adjusted free cash flow[b]

$70m

(£43m)
(2013: $54m / £35m)

a Exceptional items are set out in note 2 of Coats financial information on page 107.
b See Coats financial review on page 16 for calculation of adjusted free cash flow.
c Net attributable profit after exceptional items was $21 million (2013: $29 million).

Reporting currency explanation:
GPG's reporting currency is £UK. Coats' reporting currency is $US.

Explanatory note for currency conversion:
Headline numbers for Coats have been presented in £UK using a conversion rate of 1.647 to £1 (2013: 1.565 to £1).
All other figures within the Coats business review are presented in $US, which is its reporting currency

Chairman's statement

I am pleased to say we have moved on. Coats Group plc is a world class manufacturing business and has now returned to the market under its own name in the 125th anniversary year of its initial listing on the London Stock Exchange.

Mike Clasper
Chairman

We have moved away from the GPG investment company past, we now have one Board to lead the business and we are structuring our executive team to efficiently support the simplified corporate structure. Within Coats, the Industrial business delivered good profit growth; however the results were impacted by Crafts, particularly in EMEA. Despite this Coats achieved a high conversion into free cash flow during the year. We have recently agreed the sale of the loss making EMEA Crafts business, leaving management free to focus on further growth opportunities in our strong and profitable global Industrial and Americas Crafts businesses.

The ongoing investigations by the UK Pensions Regulator mean we cannot pass on our success by way of returns to shareholders. However, we are not going to let the investigations stop us from creating further value for our shareholders and continuing to strengthen the business which underpins the Company's obligations to its pension schemes.

Corporate and Board changes

On 26 February 2015 the Directors of GPG took the decision to rename the Company as Coats Group plc and establish a single, combined Board of Directors. This established Coats Group plc as the standalone, listed entity and signalled its return to the market in the 125th anniversary year of its first listing on the London Stock Exchange. It also marked the point at which the listed Company became a focused, global industrial manufacturing business and moved on from being an investment company with a diversified portfolio of assets.

The name change from Guinness Peat Group plc to Coats Group plc became effective on 26 February 2015.

Rob Campbell, Scott Malcolm, (Chair of the Remuneration and Nominations Committee), and Waldemar Szlezak all stepped down from the Board, effective 2 March 2015.

Rob, as former GPG Chairman, has brought continuity, experience and insight over this period of change. The Board would like to thank all retiring directors for their leadership during the successfully completed asset realisation programme, and for their support for the corporate changes.

Directors of the Coats plc Board were appointed to the Coats Group plc Board, effective Monday 2 March 2015. David Gosnell, who was recently appointed to the Coats plc Board, and Alan Rosling both became Independent Non-Executive Directors, while Paul Forman, Coats Group Chief Executive, Richard Howes, Chief Financial Officer, and Rajiv Sharma, Global CEO Industrial became Executive Directors. They join Mike Allen, Ruth Anderson, Sir Ron Brierley, Blake Nixon and me on the Coats Group plc Board. In line with best practice, it is the intention that from 2016 onwards Directors of Coats Group plc will stand for re-election on an annual basis, and the Board will continue to assess its composition with respect to its size and mix to reflect the needs of a global manufacturing business with FTSE 250 aspirations.

With the departure of Scott Malcolm, and in line with best practice, the Board has decided to separate the Remuneration and Nominations Committee. The Coats Group plc Remuneration Committee will be chaired by David Gosnell and its Nominations Committee will be chaired by me. Further information on Board committees is available in the corporate governance section of this report.

Further details regarding Coats Group plc corporate governance given from page 21 of this report.

Capital management and share schemes
In addition to the corporate changes, the Board is focused on having in place a suitable capital structure to support the business and its growth strategy. To that end Coats has successfully refinanced its main debt facility which features an extended maturity and a lower margin. The facility is backed by a group of international banks that reflects Coats' global footprint (see Coats financial review on pages 16 to 17 for more details).

Coats Group plc will look to grant share-based long term incentives for senior executives, consistent with our FTSE 250 aspirations. To support this programme we plan to fund an employee benefit trust to buy shares in the open market over time, and we are considering wider share ownership across the Group. The employee benefit trust is able to hold shares at any one time of up to 5% of the market capitalisation without seeking shareholder approval.

Although the Company is moving forward with the change in name, corporate structure and capital structure, in one aspect the Company is unable to move on. While the pension schemes are under investigation by the UK Pensions Regulator, we cannot pass on the success of the strong and cash generative Coats business by way of returns to shareholders. It is entirely appropriate that the Company fulfils all obligations to its pension schemes, and the Board and management continue to work to find a route forward balancing the interests of all stakeholders.

Reported consolidated financial results

Movements in shareholders' funds
shareholders' funds decreased from £444 million (NZ$888 million) at 31 December 2013 to £241 million (NZ$482 million) at 31 December 2014. The major change was actuarial losses in respect of retirement benefit schemes (£201 million), which was only partially offset by Coats' attributable profit (£13 million).

The net asset backing per share has, as a result, decreased from 31.5p (NZ63.0c) to 17.2p (NZ34.4c).

Income statement
The Group generated revenues, all attributable to Coats, of £1,023 million (NZ$2,046 million) in 2014 (2013: £1,089 million, NZ$2,178 million). Gross profit of £375 million (NZ$750 million) was relatively flat year-on-year (2013: £380 million, NZ$760 million). Operating profit increased from £41 million (NZ$82 million) to £64 million (NZ$128 million) in 2014, primarily driven by a significant reduction in Parent Group administrative expenses. Net attributable profit was £9 million compared to £23 million in 2013, which included a £46 million profit from discontinued operations. Earnings per share from continuing operations was 0.66p (2013: loss of 1.58p).

Overview of GPG's key net assets

Coats
Net profit attributable to GPG was £13 million (US$21 million) compared with £19 million (US$29 million) in 2013. The decline was primarily driven by an £11 million (US$19 million) impairment charge on property, plant and equipment and intangible assets relating to the EMEA Crafts business. Excluding this and other exceptional items, net attributable profit to GPG was £27 million (US$45 million), up £3 million from 2013 (£24 million, US$37 million). Coats generated a free cash inflow of £44 million (US$72 million) which contributed to a reduction in Coats net debt to £169 million (US$263 million) as of 31 December 2014 (31 December 2013: £199 million (US$329 million)). Free cash flow is the foundation for investing in future growth and will provide the capacity to pay dividends in the future.

The agreed EMEA Crafts sale followed a comprehensive review of the business, including its strategic fit within Coats, and the formulation of a turnaround plan. The sale, expected to complete in Q2 2015, better positions Coats for future profitable growth and allows it to focus attention on its high performing global Industrial and strong Americas Crafts businesses. Further details of the transaction are included on page 17.

Further details regarding Coats' performance in 2014 given on page 8 in this report

Cash at bank
At 31 December 2014 the Parent Group had cash of £375 million (NZ$750 million) (31 December 2013: £383 million (NZ$766 million)). The decrease in cash during the year was primarily as a result of operating expenses and costs related to pensions investigations, which were partially offset by foreign exchange gains.

Pensions
The deficits in the Coats UK Pension Plan ('Coats Plan') and the Brunel and Staveley schemes, on an IAS19 financial reporting basis have increased from the position at 31 December 2013. This is due to an increase in liabilities largely driven by a 115 basis point (bps) decrease in the discount rate, which more than offset a 35bps decrease in the inflation rate, the adoption of revised assumption setting methodologies and the Coats Plan trustee formally adopting improved cash commutation factors for members.

Coats has appointed John Lovell, previously Head of Pensions at J Sainsbury plc, as Group Pensions Director responsible for overseeing the Group's pension schemes. This newly created position will be responsible for further developing the Group pension strategy and working closely with the trustees of the various schemes to ensure its delivery.

The UK Pensions Regulator's investigations

The Board continues to actively engage with the UK Pensions Regulator's ('tPR') investigations and will continue to explore all options to try to resolve these matters balancing the interests of all stakeholders.

Coats Plan
As previously announced on 19 December 2014 the Company, GPG (UK) Holdings plc and Coats plc received a Warning Notice ('WN') from tPR in relation to the Coats Plan.

Chairman's statement continued

The relative period end positions are set out below:

IAS19 deficit

	31 December 2014 £m	31 December 2013 £m
Coats UK Pension Plan	**214**	78
Other Coats net employee benefit obligations	**49**	44
Total Coats net employee obligations	**263**	122
Brunel	**54**	28
Staveley	**58**	28
Total £ million	**375**	178
Total NZ$ million	**750**	356

The WN explains that tPR's case team is of the view that each of the three sponsoring employers of the Coats Plan was insufficiently resourced at the relevant date (31 December 2012), which is a prerequisite for it to use its statutory powers. Further, the case team considers it is reasonable for the Determinations Panel ('DP') of tPR to issue a Financial Support Direction ('FSD') in relation to the Coats Plan. This could result in the Company, GPG (UK) Holdings plc and/or Coats plc being required to put in place financial support for the Coats Plan.

Having reviewed the WN with its legal and other advisers, the Company will continue to robustly oppose tPR's view on insufficiency of resources. The Company believes that the Coats Plan already benefits from strong support provided by the Coats business in accordance with the statutory scheme specific funding regime, and also does not accept that under the regulations it is proper for tPR to seek to use its statutory powers in relation to the Coats Plan. The Board intends to litigate this matter as far as necessary unless it can be resolved satisfactorily via negotiation.

Brunel and Staveley schemes

As previously disclosed, in December 2013 GPG received WNs from tPR in respect of Brunel and Staveley. GPG submitted written representations on the WNs at the end of September 2014 within the deadlines set by tPR, but has yet to receive responses from tPR.

Timing and settlement discussions

Hearings before the DP for the Brunel and Staveley schemes would have been likely in 2015. However, in the Coats WN, tPR has indicated that it believes that it would be appropriate for the DP to hear the Brunel and Staveley cases at the same time as the Coats case rather than considering one or two of the three schemes in isolation. Therefore, the timetable is likely to be driven by the status of the Coats Plan FSD proceedings and, as a result, any hearing before the DP for all three schemes is unlikely before the second half of 2016 at the earliest. The delay that will be caused by linking all three schemes is frustrating in the view of the Board.

In early 2015 a proposal, which reflected the Board's view of the strong legal position in respect of the Coats Plan, was put to tPR and the various trustees to settle matters across the three schemes in order to resolve all investigations. This proposal was not accepted by tPR or the various scheme trustees. As noted above, the Board will litigate these matters as far as necessary, unless they can be resolved satisfactorily via negotiation.

Triennial funding valuations

The current level of deficit reduction payments for the Coats Plan of £14 million per annum that commenced in November 2013 for a period of approximately 14 years will be subject to review at the next triennial valuation, which commences from 1 April 2015.

The triennial valuation processes for both the Brunel and Staveley schemes are on-going and have been delayed by tPR's investigations. The Company is engaged in discussions with the trustees of both schemes with a view to reaching agreement on the valuations in due course.

Parent group overheads

Total operating costs, net of foreign exchange gains/losses, were £7 million compared with £43 million in 2013. Foreign exchange gains in 2014 of £11 million (2013: £2 million loss) were partly driven by the strengthening US Dollar against the British Pound.

The Company continues to carefully manage its costs while focussing on achieving a successful completion of tPR's investigations, taking external advice as necessary in order to protect the Company's interests. Costs incurred in relation to tPR's investigations during 2014 were covered by an £8 million provision made at the end of 2013 for anticipated costs during 2014. A further £8 million provision has been made at the end of 2014 to respond to the Warning Notice received from tPR in relation to the Coats Plan and for progressing the process around the Staveley and Brunel schemes, for the Company and the trustees of these schemes.

As reported at the 2014 half year results, GPG completed the downsizing and outsourcing of support services on 30 June 2014 with the closure of its London office. This followed a significant reduction in staff numbers during 2013. As a consequence staff costs significantly reduced year-on-year to £2 million (2013: £13 million). Other Company expenses, which included staff costs as well as GPG Board expenses, legal, audit and other non-pensions related professional fees, declined from £21 million to £6 million in 2014. Other pensions related expenses, including pension scheme administrative costs under IAS19, totalled £4 million.

Excluding pension investigations costs, the Company maintains its guidance of annual overheads of approximately £3-4 million for pension related expenses. Given the corporate structure changes announced, the Company expects other corporate expenses to reduce to around £3 million per annum (previous guidance was £3-4 million).

Other items

Shareholdings

Shares of Coats Group plc retain the same nominal value as those of Guinness Peat Group plc, and existing share certificates remain valid. Further information for shareholders can be found at www.coats.com/investors

Annual General Meeting

The Annual General Meeting will be held on Thursday 21 May 2015 in London. Further details of the location and time will be provided in the Notice of Meeting which will be sent to shareholders in April 2015.

Mike Clasper
Chairman
Coats Group plc

18 March 2015

Note: All NZ$ comparatives to £ amounts are for illustrative purposes only, based on the NZ$:GBP exchange rate on 31 December 2014, NZ$2.00: £1.00.

GPG

Strategy and business model

In February 2011 the GPG Board announced a plan for an orderly value realisation of the Group's investment portfolio with the proceeds being used for capital management initiatives. At the time it was indicated that this may result in an investment in GPG becoming a direct investment in Coats.

The asset realisation programme was successfully completed during 2013 and generated a cumulative £698 million from 1 January 2011. Between 2011 and 2013 more than £160 million of proceeds were returned to shareholders via capital returns, cash dividends and share buybacks. However completion of the capital return process has been delayed by tPR's investigations. The Chairman's statement contains a full update on this process and the costs incurred to date in dealing with these matters.

During the year under review, and prior to renaming Guinness Peat Group plc as Coats Group plc, the Group was managed with two clear operational levels:

- GPG plc Board had overall responsibility to shareholders for stewardship of the Company; including central treasury, tPR's investigations and capital management and structuring; and
- Coats plc Board had responsibility for setting the detailed strategy of the Coats business and monitoring performance against that strategy. Detail relating to Coats' strategy, business model and performance in 2014 can be found from page 8 onwards.

In February 2015 the Directors took the decision to rename Guinness Peat Group plc as Coats Group plc and established a single, combined Board of Directors. The responsibilities of the Coats Group plc Board can be found on pages 26 to 27.

The Group is primarily comprised of the Coats business, as well as a Parent Group cash balance of £375 million (at 31 December 2014) and two legacy UK defined benefit pension schemes (Brunel and Staveley).

Although the Company has moved forward with the change in name, corporate structure and capital structure, in one aspect the Company is unable to move on. While the pension schemes are under investigation by tPR, it cannot pass on the success of the strong and cash generative Coats business by way of returns to shareholders. It is entirely appropriate that the Group fulfils all obligations to its pension schemes, and the Board and management continue to work to find a route forward balancing the interests of all stakeholders.

Operational performance

The financial performance of the Group as a whole is dealt with by the Chairman in his statement. Further details of Coats' operational performance can be found from pages 10 to 17.

Key Performance Indicators (KPIs)

A KPI for GPG was its reported net asset value. The reported net asset value per share in 2014 decreased from 31.5p to 17.2p. A significant factor in the determination of net assets per share is the IAS 19 employee benefit obligations. These are based on market conditions at each period end including the yield on corporate bonds.

The Board previously monitored the value realisation programme against the value of the portfolio at the time the strategy was announced. As noted above, the programme was successfully completed during 2013 and generated a cumulative £698 million from 1 January 2011. This compares to a market value on 1 January 2011 of the investment portfolio of £677 million. Given the programme was completed in 2013 the Board decided that this KPI was no longer relevant for the year under review.

As stated above a key element of the value realisation strategy is returning capital to shareholders. Given the events during 2013 and 2014 relating to tPR's investigations, this indicator does not fully convey the developments of GPG during the year under review.

The primary financial measures against which Coats was monitored in the year under review were turnover, pre-exceptional operating profit, pre-exceptional attributable profit and adjusted free cash flow. During 2014, Coats reported a decline in turnover of 1% (up 1% on a constant currency basis), pre-exceptional operating profit declined by 1% (flat on a constant currency basis), pre-exceptional attributable profit grew 21% to $45 million and adjusted free cash flow increased 30% to $70 million.

With the change in name to Coats Group plc, and the transition from an investment company with a diversified portfolio of assets to a focused, global manufacturing business, the KPIs for the Company will be reviewed by the Board during the year and presented in the 2015 Annual Report.

Linking performance and reward

The Board through the Remuneration and Nominations Committee has developed a Remuneration Policy which provides an appropriate framework of incentives for the Executive Directors of the Company. This Policy is set out from page 32.

Prospects

See Chairman's statement on pages 2 to 4 and Chief Executive's review on pages 10 and 11.

Corporate Responsibility (CR)

The CR focus for the year under review lay within Coats. Further information regarding Coats' CR approach, including how it links to business strategy, can be found on page 13 and includes our approach to environmental matters, employees and social, community and human rights issues. Detail is provided on greenhouse gas emissions on page 25.

Diversity

In line with the requirements of the Code and of the ASX Governance Principles, it is the Company's practice to treat all appointments equally and on merit, regardless of ethnicity or gender. The Board does not have a formal policy on diversity. That said, the Company has been developing a policy which is intended to be approved by the Board in the coming year. Coats already employs a diverse workforce and has a stated ambition to increase the number of women at more senior levels. See page 12 for more information in this area.

GPG continued

Details of the make-up of the Group's employees by gender as at 31 December 2014 are set out in the following table.

	Male	Female	Total	Female %
Board of Directors	7	1	8	13%
Senior Management (excluding Board Directors)	292	71	363	20%
All employees (excluding onsite contract workers)	11,939	8,314	20,253	41%

In accordance with the UK Companies Act 2006, Senior Managers are employees with responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the company, and persons who were directors of subsidiaries of the Company.

Within the Coats business, 41% of its global workforce and 20% of its senior management excluding Board Directors were female as of 31 December 2014.

As of 31 December 2014 there were 20,253 employees within the Group. Coats carries out an annual Engagement survey amongst its employees and has a policy of responding to the feedback this generates.

Principal risks
It is the responsibility of the Board and its various committees to identify and understand the key risks faced by the business and to ensure mitigating action is taken to control them. Those risks are:

Risk	Nature of risk	Action/mitigation
Employee defined benefit obligations – accounting impact and regular funding	The Group has a number of employee defined benefit arrangements in place, the most significant being: > three UK pension schemes: Coats, Brunel and Staveley; and > the Coats North America plan. The UK schemes can impact the Group on various levels. Given their size, and particularly that of the Coats Pension Plan, these schemes can have a material impact on the Group's reported results. Under IAS19 the Consolidated Income Statement includes an administrative charge and a finance cost relating to these schemes and variations in these charges can give rise to fluctuations in reported earnings. In addition, changes in the IAS19 accounting surpluses and deficits in the schemes impact the level of shareholders' funds. When funding deficits arise this can have a cash flow impact. The net accounting and funding positions of these arrangements are particularly sensitive to real discount rates and the investment performance of any segregated assets.	Managing the funding position of the three UK pension schemes is the primary responsibility of their respective trustees. The strategy followed by each trustee targets the long term funding position of its scheme. Each has used corporate bonds to fund short term liabilities. Equities and other return-seeking assets are held for the longer term. These provide a natural hedge respectively for short term obligations and long term inflation risk. Coats has in place a short term inflation hedging programme. In addition, the trustees have implemented formal de-risking strategies with thresholds for switching return-seeking assets into bonds. The 2012 funding valuation for the Coats UK Pension Plan was completed during 2013 and a scheme deficit of £215 million was agreed. As of November 2013 a 14 year recovery plan commenced and the rate of contributions increased from that date from £7 million per annum to £14 million per annum. In addition Coats plc agreed to provide the scheme with a parent company guarantee. The Brunel scheme is in the process of completing its 2013 triennial valuation. There was no deficit in 2010 and, hence, there is currently no recovery plan. However, the Board expects a deficit and a recovery plan to result from the current exercise. The Staveley scheme last had a triennial valuation as at 5 April 2011. The 2011 valuation resulted in a one-off payment of £5 million being made to the scheme in July 2012 and an eight-year recovery plan at an annualised rate of £1.3 million. The triennial valuation processes for both the Brunel and Staveley schemes are on-going and have been delayed by tPR's investigations. The Company is engaged in discussions with the trustees of both schemes with a view to reaching agreement on the valuations in due course. The Coats North America plan has a funding surplus and the investment strategy followed includes a matching asset pool which should substantially reduce the risk of a funding shortfall arising in the future.

Risk	Nature of risk	Action/mitigation
Employee defined benefit obligations – regulatory investigation	As previously reported and described further in the Chairman's statement on pages 3 to 4, tPR is investigating the Group's three UK defined benefit pension schemes and has issued Warning Notices in relation to all three schemes.	The Board continues to actively engage with tPR's investigations and will continue to explore all options to try to resolve these matters balancing the interests of all stakeholders.
Treasury concentration risk	The completion of the asset realisation programme combined with the deferral of the return of capital to shareholders during tPR's investigations has resulted in a significant proportion of shareholder value being represented by cash.	The Board is cognisant of the potential for this to give rise to concentration risk. The Board is provided on a monthly basis with a report of cash balances by bank, jurisdiction and currency. In addition it regularly reviews these risks at Board meetings to ensure appropriate mitigating action is being taken.
Foreign currency exposure	Coats business' activities are primarily denominated in USD, although it has major asset bases in other currencies, including the Indian Rupee and the Brazilian Real. Coats takes action to protect its anticipated transactional currency exposure but does not hedge its assets and liabilities. Cash generated through the asset realisation programme is primarily held in GBP, USD and NZD. The GBP balance is held to cover known liabilities whereas the NZD and USD balances represent the currently surplus funds. Given the investigation being carried out by tPR, the Board faces the potential of some as yet unquantified obligations to provide further financial support to the Group's UK pension schemes. The size and nature of these obligations will only be known once the process with the respective scheme trustees and tPR has been completed. Any hearing before the Determination Panel of tPR for all three schemes is unlikely before the second half of 2016 at the earliest. If all rights of appeal are pursued, this process would extend beyond this period. This in turn means the Board is currently not able to determine with certainty the quantum of future returns, if any, to shareholders.	The Board regularly reviews its currency exposures and has taken steps to ensure transparent reporting to shareholders of the positions held.
Human resources	Shareholder value is heavily dependent on key individuals within the Group.	The Board has recognised the risk to delivery of the Company's strategy from key staff leaving during the process. It regularly reviews the appropriateness of its incentive and reward arrangements and has established retention and/or incentive plans to address this risk.
Coats	Given the simplification of the Company's business model, the Coats business now represents the major portion of the Group's business risk.	Coats faces a wide range of commercial and operational risks. Coats manages these risks through various structures, including its Internal Audit Function and Operational Risk Management Committee, comprising a broad mix of managers across the business, chaired by the Group Chief Executive. The Head of Internal Audit attends meetings of and reports to the Board's Audit and Risk Committee. The key risk areas identified and managed through this process are described in more detail on pages 18–20.

Coats at a glance

A rich heritage dating back to the 1750s

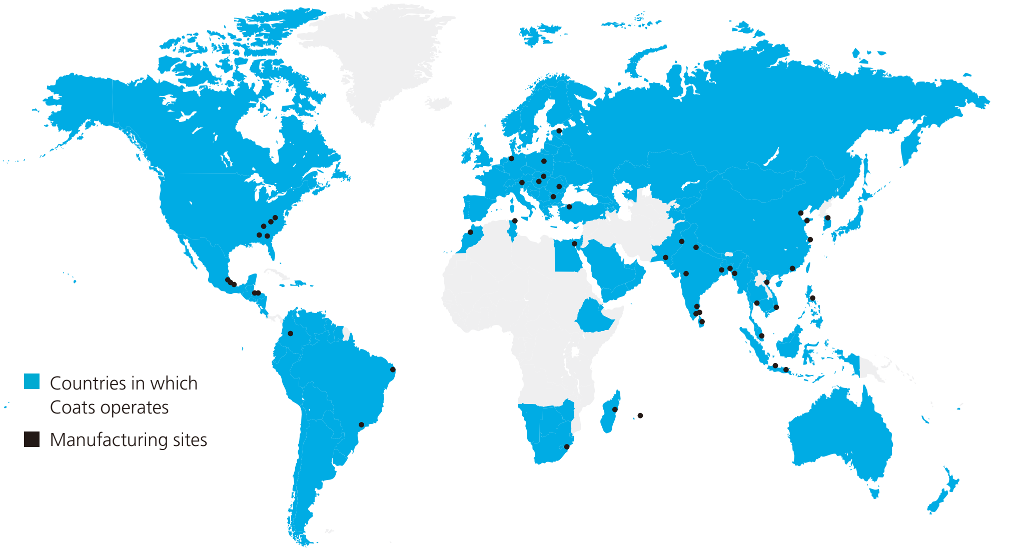
Coats is the world's leading industrial thread and consumer textiles crafts business. We operate on a truly global basis in more than 70 countries, employing 20,000 people across six continents

No.1
in sewing thread
over 20% market share

No.2
in global zips
fastest growing global manufacturer

Global leader
in Speciality
in high performance threads

No.1 in crafts
largest global player
in textile crafts market



Countries in which Coats operates
Manufacturing sites

Coats

Revenue
$1,686m

Pre-exceptional operating profit
$131m

Pre-exceptional attributable profit
$45m

Adjusted free cash flow
$70m

Industrial

Industrial
Every year our industrial products go into 10 billion garments, 450 million pairs of shoes and a diverse range of products that are part of the fabric of everyday life. The strength of our business comes from working closely with our customers to develop thread and yarn solutions that add significant value to their product ranges.

Core offers:
> Apparel & Footwear
> Zips & Trims
> Speciality
  – Traditional
  – Emerging
  – Value added engineered yarns

Revenue in 2014
$1,243m

Crafts

Crafts
Coats Crafts is the world's leading supplier of textile crafting products – from the innovative cotton sewing thread that made our name, to knitting, embroidery, crochet, fabrics and a range of accessories.

Consumer activities:
> Handknitting
> Crochet
> Lifestyle fabrics
> Needlecraft
> Accessories

Revenue in 2014
$443m

Our vision

To be the world leader
To be the world leader in value added engineered yarns and threads for industrial and consumer use

To develop highly complementary products
To develop and supply highly complementary products and services where they add significant value to customers

Success through customer-focused innovation
We will achieve success through customer-focused innovation and winning propositions driven by motivated people and global teamwork

Our goals

Profitable sales growth
Increasing market share through strong customer relationships and product and service innovation

Increased productivity
By continually focusing on how we utilise our assets and expenditure

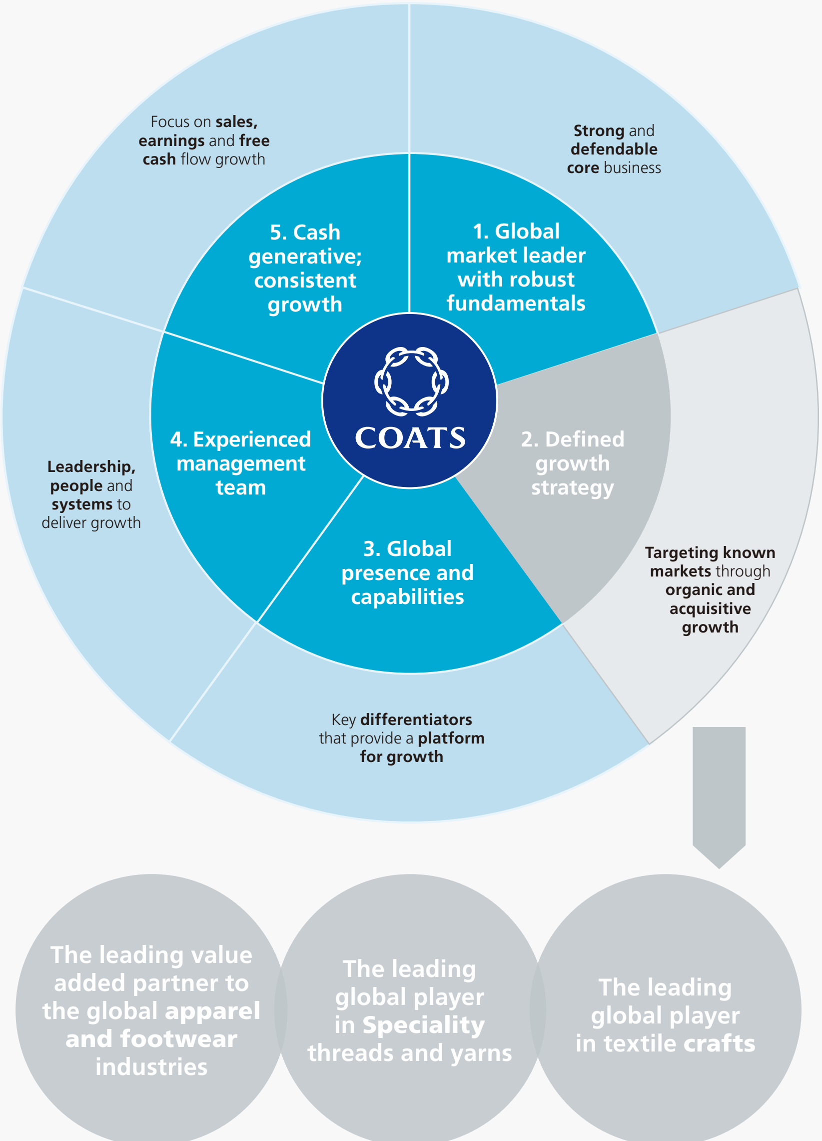
Positive teamwork
Combining the experience and expertise of the global team to harness the full potential within Coats

Our business model

We have five elements to our value

The elements of our business model work together to sustain and build Coats' market leadership and deliver cash generative, consistent growth to our shareholders.

Further details can be found at www.coats.com/investors



Market goals

A defined growth strategy to achieve three market goals

These goals are being revised over the course of 2015 to develop the next set of market goals to take Coats to 2018.

Chief Executive's review

I am pleased we have delivered material increases in pre-exceptional attributable profit and free cash flow in 2014. These results show the positive effect of our growth strategy.

Paul Forman
Group Chief Executive

Pre-exceptional attributable profit

$45m

Adjusted free cash flow

$70m

Speciality sales

+14%

Industrial operating profit

+18%

All references to Coats financial performance are to that of 'Coats Group Limited'.

Overview

In 2014 Coats' reported revenues marginally declined to $1,685.9 million from $1,703.7 million in 2013. On a like-for-like basis Coats' revenues grew 1% during 2014, with 5% growth in Industrial sales and a 9% decline in Crafts. The decline in demand for fashion handknitting products in both North America and EMEA impacted performance in Crafts, suppressing growth in group sales. The decline on a reported basis reflected the translation impact of a strengthening US Dollar against currencies such as the Brazilian Real and the Indian Rupee.

Coats' pre-exceptional operating profit declined 1% year-on-year on a reported basis and remained stable on a like-for-like basis at $130.9 million. Industrial delivered a like-for-like 18% improvement, driven by increased sales, while inflationary cost rises continued to be offset with procurement and productivity improvements coupled with pricing initiatives. Crafts was primarily impacted by a decline in sales, as well as by one-off costs. However performance in the second half improved in line with guidance issued in the 2014 half year results. Operating profit included approximately $8 million of reorganisation related costs that have not been classified as exceptional.

Industrial

Industrial sales in 2014 were $1,243.1 million, up 5% year-on-year, continuing the positive momentum from 2013. Revenue growth was balanced across the regions with double digit growth in the key markets of Turkey, the USA and Vietnam. Speciality sales grew 14% year-on-year, and by 18% in the second half of 2014, with strong demand from the protective clothing markets in EMEA and North America and the outdoor and sporting goods markets in Asia. Operating profit growth of 18% year-on-year was delivered through volume growth, with productivity and purchasing improvements, coupled with pricing initiatives, successfully offsetting cost inflation.

Crafts

Crafts' sales of $442.8 million represented a 9% year-on-year decline. The reduction in both the Americas and EMEA was primarily due to lower demand for fashion handknitting products. Excluding this anticipated decline, North American Crafts sales grew 3% year-on-year. Sales in EMEA were also impacted by a decline in the Needlecrafts category and a change in Coats' Scandinavian operating model. As a result of improved sales performance in the Americas and cost reduction initiatives the

Financial summary

$m	2014 Before exceptional items Unaudited	2014 Exceptional items[1] Unaudited	2014 Total Unaudited	2013 Before exceptional items Unaudited	2013 Exceptional items[1] Unaudited	2013 Total Unaudited
Revenue	1,685.9	–	1,685.9	1,703.7	–	1,703.7
Operating profit	130.9	(23.8)	107.1	132.7	(8.5)	124.2
Profit before taxation	100.2	(23.8)	76.4	96.6	(8.5)	88.1
Net profit attributable to equity shareholders	45.1	(23.9)	21.2	37.3	(8.1)	29.2
Free cash inflow			71.8			44.8

1 Exceptional items are set out in note 2 of the Coats financial information on page 107

Operating summary

	2014 Reported $m	2013 Reported $m	2013 Like-for-like[1] $m	Reported increase/(decrease) Full Year %	First Half %	Second Half %	Like-for-like increase/(decrease) Full Year %	First Half %	Second Half %
Revenue									
Industrial	1,243.1	1,211.8	1,185.1	3%	3%	3%	5%	5%	4%
Crafts	442.8	491.9	485.0	(10)%	(8)%	(12)%	(9)%	(7)%	(10)%
Total revenue	**1,685.9**	**1,703.7**	**1,670.1**	**(1)%**	**0%**	**(2)%**	1%	**2%**	**0%**
Pre-exceptional operating profit[2]									
Industrial	128.1	110.7	108.9	16%	22%	10%	18%	24%	12%
Crafts	2.8	22.0	22.0	(87)%	N/A	(70)%	(87)%	N/A	(70)%
Total	**130.9**	**132.7**	**130.9**	**(1)%**	**3%**	**(5)%**	**0%**	**5%**	**(4)%**
Operating margin[2]	**7.8%**	**7.8%**	**7.8%**	**0bps**	**20bps**	**(30)bps**	**(10)bps**	**20bps**	**(30)bps**

1 2013 like-for-like restates 2013 figures at 2014 exchange rates
2 Excluding exceptional items (see note 2 to the Coats financial information on page 107)

In this commentary, all comparisons with 2013 are on a like-for-like currency basis and all references to operating profit are on a pre-exceptional basis unless stated otherwise.

business returned to profitability in the second half of 2014, thereby delivering a $2.8 million operating profit for the year.

Sale of EMEA Crafts

As announced on 19 February 2015 Coats has agreed to sell the EMEA Crafts business to the Aurelius Group. The sale follows a comprehensive review of the business, including its strategic fit within Coats, and the formulation of a turnaround plan. The sale better positions Coats for future profitable growth and allows it to focus attention on its high performing global Industrial and strong Americas Crafts businesses. The sale is subject to a limited number of conditions usual for this type of transaction and is expected to complete in Q2 2015. Further details of the transaction are included on page 17.

Financial summary

Net profit attributable to equity shareholders increased 21% to $45.1 million, on a reported pre-exceptional basis, compared to 2013 ($37.3 million). This was primarily due to lower pension finance costs, reduced finance costs resulting from lower year-on-year net debt and average interest rates, and a lower tax charge. Pensions finance costs will be significantly higher in 2015 due to the increase in the pensions deficit of the Coats Plan during 2014. Including exceptional items and their associated tax effect, including an $18.8 million impairment charge of property, plant and equipment and intangible assets relating to the EMEA Crafts business, Coats generated a reported attributable profit of $21.2 million (2013: $29.2 million). No exceptional reorganisation charges were incurred in 2014. Operating profit included approximately $8 million of reorganisation related costs that have not been classified as exceptional.

In 2014 Coats generated adjusted free cash flow[a] of $70.1 million, a 30% increase on 2013 ($54.1 million). The year-on-year improvement was driven by improved working capital management, lower interest and tax payments. Reflecting strong cash generation, year-end net debt fell to $262.6 million (2013: $329.2 million) and Coats' leverage ratio[b] of net debt to EBITDA fell to 1.4 times (2013: 1.8 times).

Return on capital employed[c] increased to 26% (2013: 22%), primarily driven by the reduction in net working capital.

Prospects

A mixed regional picture in consumer demand for Coats' products is expected to continue in 2015. While Coats anticipates a broadly positive outlook in Asia and solid growth in North America, the situation in Europe is likely to be affected by underlying macroeconomic developments and Latin America is expected to remain relatively flat. In a general deflationary environment it will become increasingly challenging to use pricing improvements to offset payroll and other inflationary pressures which Coats faces in the many countries in which it operates.

In the core Apparel and Footwear business there will be an increased focus on customer engagement and order management using digital channels, while in the Speciality business continued growth is expected to be achieved through geographic expansion and new product innovation in areas such as aramids and composites. Year-on-year performance in the Americas Crafts business is expected to remain relatively stable, as ongoing growth in core handknitting sales will be offset by reduced demand for fashion handknitting products.

The mixed consumer demand outlook, ongoing inflationary challenges and a continued strengthening of the US dollar will have a negative impact on operating profits in 2015. This will be somewhat mitigated by the treatment of losses attributable to EMEA Crafts as discontinued items, leading to a broadly stable operating profit for the year, with profitability weighted towards the second half. Attributable profit will be reduced by an increase in pensions finance costs, which should be offset by a continuing reduction in the effective tax rate and interest charges.

Conclusion

The underlying results for the year demonstrate a strengthening of the core Apparel and Footwear business, double digit sales growth within Speciality and a strong and profitable Americas Crafts business. This enabled Coats to deliver growth in pre-exceptional attributable profit and to generate significant free cash flow, which provides a strong base for organic and inorganic growth.

Paul Forman
Group Chief Executive
Coats Group plc

18 March 2015

a See Financial review on page 16 for calculation of adjusted free cash flow
b Under the definitions of net debt and EBITDA prescribed in Coats' senior debt facility
c Return on capital employed defined as pre-exceptional operating profit divided by capital employed at period end

People

Coats' employees are the core of our business. Their leadership, talent and commitment ensure we remain leaders in our sector, are competitive in the marketplace and operate our businesses effectively and efficiently.

A healthy working environment
Our number one priority is to keep our employees safe and our health, safety and welfare programmes continue to keep our accident statistics low. In 2014, our global accident rate was 0.33 reportable incidents per 100 full time employees (compared to 0.37 in 2013, 0.44 in 2012, and 0.60 in 2011). This is well below the latest OSHA[a] average of 3.1 for US textile mills and below the UK average of 0.43 for the manufacture of textiles, as reported for 2013/14 by the UK HSE[b]. However, there is always more we can do and we aspire to reduce our accident levels still further in the coming years.

Employee engagement
In order to achieve our business goals, we rely on our employees being engaged and driving our business forward. To make sure we are on the right track, we benchmark our workplace culture on an annual basis through our employee engagement survey. This tells us how people feel about working at Coats and helps us identify areas that need attention. With a high participation rate of 94% in the 2014 survey, we were pleased to see that our employee engagement score has increased to 81% (one percentage point higher than last year and four higher than 2012). This positions Coats in the top 10% of all global surveyed companies (as benchmarked by a leading specialist survey organisation).

Leadership and talent development
It is important to Coats that we harness and nurture the best talent among our workforce and provide them with the skills and opportunities to succeed. Through competitive packages we recruit and retain high calibre individuals. We invest in our people by providing equal opportunities for learning, through general training and job-skills programmes and, where appropriate, tailored career planning and leadership development.

During 2014, we reviewed our global approaches to leadership, talent development and succession planning and made great progress.

> We have reviewed our senior management positions, and by the end of 2015 will have developed comprehensive succession plans for all senior posts.
> Our Management Capability Development Programme (MCD) was awarded a Brandon Hall Bronze Award for Best Blended Program in 2014. This is a tailored learning programme aimed at strengthening leadership skills throughout the business. During 2014, more than 300 people across 10 countries participated in the MCD programme, and 99% said that 'it makes them a better leader'. A further 240 will enrol during 2015.
> Our 'CEO Circle' initiative saw its first group of nine high potentials complete the programme. A second group has now started its journey. This is a two-year programme led by the Group CEO and designed to accelerate the development of leadership capabilities in a select group of high potential managers within Coats.

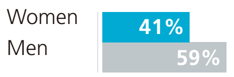
A diverse workforce
We believe in equal opportunities and pride ourselves on the diversity of our workforce. At the end of 2014, we had 77 nationalities amongst our employees and 24 are represented in our global leadership team.

Although our average gender split is good, with women representing over 40% of our global workforce, only 20% of our senior management (excluding Board Directors) are women. We recognise there is more to do and during the year we developed plans for a new diversity and inclusion initiative which was launched in January 2015. Through a range of associated activities, we aim to increase the diversity of our workforce at all levels, and specifically address the number of women in leadership positions.

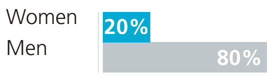
Human rights and employment standards
Whilst the Company does not have a specific human rights policy, our worldwide employment standards (available on www.coats.com) set out the principles which are observed across our global operations. These standards state our approach to human rights and recognise the requirements of the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core ILO Conventions, and the OECD Guidelines for Multinational Enterprises.

a US Occupational Safety and Health Administration
b UK Health and Safety Executive

Gender diversity at Coats



Senior management (excl. Board Directors)



Corporate Responsibility

Responsible behaviour is the thread that holds us all together. Our Corporate Responsibility (CR) programme is integrated with our business strategy and helps us build and maintain both our reputation and our relationships with key stakeholders.

The values and standards that we subscribe to as a company are at the core of our CR programme. They are embodied in the five principles that describe the way we work: openness and honesty, energy for change, freedom to operate, customer-led innovation and keeping our promises.

Defining our programme

Our CR materiality assessment underpins the CR programme. The assessment, which is available on our website, quantified what's important to Coats and our stakeholders and identifies issues that support our business goals: profitable sales growth, increased productivity and positive teamwork.

The key issues we identified were grouped under seven themes as illustrated in the graphic on the right. Although we discuss just two of these themes here, all seven themes are equally important to us and the progress we are making across each of these areas is described on our website.

To further embed our CR programme, we created a global network of CR champions this year. Their main role will be to share information on CR initiatives, act as a point of contact for their area of the business and help disseminate best practice.

Manufacturing processes and environmental impact

We constantly review our manufacturing processes to remain as efficient as possible, to minimise both the cost to our business and the impact we have on the world around us. Since 2000, we have focused on reducing our energy consumption and have seen a dramatic reduction in our carbon footprint. In 2014, greenhouse gas emissions were 5.1 kg CO_2e per kg of dyed product (compared to 5.3 in 2013, 5.6 in 2012 and 5.7 in 2011) and we have seen a 5% reduction in our overall carbon footprint.

Engaging with our communities

Developing a clear and active approach to community engagement helps us build stronger relationships with local communities, governments and business partners. It also increases our ability to attract and retain high quality, committed employees.

2014 saw the global launch of our community engagement programme. The two key themes of Education and Textiles provide a focus for our activities and reflect the interests of our employees, our business and the products and services we offer. Our entire senior team was involved in the launch and as a result, during 2014 we implemented around 100 separate community engagement plans in 47 business units across 38 different countries. Although the types of activity vary greatly across the globe, the enthusiasm that our employees have shown for this initiative has been universal.

For more information on our approach to CR and our seven strategic themes, go to our website. **www.coats.com/corporateresponsibility**

Operating review

Industrial

Sales in 2014

$1,243.1m

Geographic revenue

1. Asia and Australasia **$679.8m**
2. Americas **$288.6m**
3. EMEA **$274.7m**

Industrial overview

Industrial sales rose 5% year-on-year due primarily to significant revenue growth in Speciality (14%) and steady growth in the core Apparel and Footwear category. This resulted in both categories growing by approximately the same amount in absolute terms. Double digit sales growth was delivered in key markets such as Turkey, USA and Vietnam due to market share gains and underlying market growth.

Industrial operating profit increased by 18% to $128.1 million (2013: $108.9 million), with volume growth, productivity, procurement and pricing initiatives more than offsetting payroll and energy inflation. As a result operating margins increased by 110bps to 10.3% (2013: 9.2%).

Region

Asia and Australasia

Asia and Australasia sales increased by 4% year-on-year with growth across the region. A key growth driver was apparel and footwear sales in both Vietnam and India, although a marginal slowdown in these key markets led to reduced regional growth in the second half. Speciality made good progress, with the outdoor and sporting goods markets in particular contributing to sales growth.

Americas

A strong second half performance enabled the Americas region to generate a 5% year-on-year increase in revenues. In H2 2014 growth of 7% was primarily driven by North American Speciality sales, particularly within the protective clothing and wire and cable markets, which also showed good growth in the first half. In addition the Apparel and Footwear category delivered an improved performance following softness in demand from some US brands during the first half of 2014.

EMEA

Sales in EMEA increased 6% with year-on-year growth across most key markets and a strong performance from both Speciality and Zips. The Speciality category benefited from strong demand in the bedding market during the second half and the protective clothing market throughout 2014.

Category

Apparel and Footwear

Revenues in the Apparel and Footwear category grew 3% year-on-year from a combination of market share gains and underlying market growth, although growth during the second half slowed due to strong comparators.

Speciality

In the Speciality category, 14% year-on-year growth (18% in the second half) was achieved through geographic expansion and new product innovation and sales. For example, sales to engineered performance fabrics customers, including sales of the Flamepro product range, an aramid thread used in personal protective equipment, increased $6 million year-on-year, while sales of aramid composite products, that enable the replacement of steel natural gas pipes with reinforced thermoplastic pipes, were up $3 million.

All references to Coats financial performance are to that of 'Coats Group Limited'.

Industrial

	2014	2013			Like-for-like increase		
	Reported $m	Reported[1] $m	Reported increase %	Like-for-like[1] $m	Full Year %	First half %	Second half %
Revenue							
By region							
Asia and Australasia	679.8	659.0	3%	651.4	4%	5%	3%
Americas	288.6	284.5	1%	274.1	5%	3%	7%
EMEA	274.7	268.3	2%	259.6	6%	7%	5%
Total	**1,243.1**	1,211.8	3%	1,185.1	**5%**	**5%**	**4%**
By category							
Apparel and Footwear[2]	1,008.1	1,001.3	1%	979.3	3%	4%	2%
Speciality	235.0	210.6	12%	205.8	14%	10%	18%
Total	**1,243.1**	1,211.8	3%	1,185.1	**5%**	**5%**	**4%**
Pre-exceptional operating profit[3]	**128.1**	110.7	16%	108.9	**18%**	**24%**	**12%**
Operating margin[3]	**10.3%**	9.1%	120bps	9.2%	**110bps**	**160bps**	**60bps**

1 2013 like-for-like restates 2013 figures at 2014 exchange rates
2 Includes accessories, zips and trims and global services
3 Excluding exceptional items (see note 2 to the Coats financial information on page 107)

In the commentary above, all comparisons with 2013 are on a like-for-like currency basis and all references to operating profit are on a pre-exceptional basis unless stated otherwise.

Crafts overview

Crafts sales declined 9% year-on-year, primarily due to the impact of lower demand for fashion handknitting products in North America and EMEA and the change in operating model in Scandinavia in 2013.

Due to the overall weaker sales performance, and change in operating model in Scandinavia, Crafts made an operating profit of $2.8 million in 2014, compared to $22.0 million in 2013. This resulted in a decline in operating margin to 0.6% from 4.5% in 2013. However, and in line with prior guidance, the Crafts business returned to profitability in the second half due to improved sales performance in the Americas and cost reduction initiatives. This enabled the Americas business to deliver a reasonable operating profit for the year.

Crafts

Sales in 2014

$442.8m

Geographic revenue

1. Americas **$295.7m**
2. EMEA **$147.1m**

Region

Americas

In the Americas, revenue fell 5% year-on-year, primarily due to a decline in fashion handknitting sales, including Red Heart's Sashay fashion handknitting product range, following a peak in demand in 2013. Excluding fashion handknitting sales, North American Crafts grew sales by 3%. In the smaller Latin America business, growth in Handknittings in the first half of 2014 continued into the second half, despite challenging market conditions. Overall Americas Crafts remains a strong business that generates good margins based on its market leading position.

EMEA

Revenue in EMEA, down 15%, was significantly impacted by the decline in fashion handknitting sales. The full year decline also reflected falling sales in the Needlecrafts category and the move from a retail sales model to distribution model in Scandinavia, which impacted sales by approximately $11 million, equating to a 6% decline in EMEA revenues.

Category

The 6% decline in Needlecraft sales reflects the long term decline in that market.
The 11% fall in Handknitting sales was impacted by the previously mentioned change in fashion trends following a peak in demand in 2013, although the core handknitting business grew globally.

Crafts

	2014 Reported $m	2013 Reported[1] $m	Reported decrease %	2013 Like-for-like[1] $m	Like-for-like decrease Full year %	Like-for-like decrease First half %	Like-for-like decrease Second half %
Revenue							
By region							
Americas	295.7	318.5	(7)%	311.8	(5)%	(4)%	(6)%
EMEA	147.1	173.4	(15)%	173.2	(15)%	(13)%	(17)%
Total	**442.8**	**491.9**	**(10)%**	**485.0**	**(9)%**	**(7)%**	**(10)%**
By category							
Needlecrafts[2]	206.4	225.8	(9)%	220.2	(6)%	(6)%	(6)%
Handknittings	236.4	266.1	(11)%	264.8	(11)%	(8)%	(13)%
Total	**442.8**	**491.9**	**(10)%**	**485.0**	**(9)%**	**(7)%**	**(10)%**
Pre-exceptional operating profit[3]	**2.8**	**22.0**	**(87)%**	**22.0**	**(87)%**	**N/A**	**(70)%**
Operating margin[3]	**0.6%**	**4.5%**	**(390)bps**	**4.5%**	**(390)bps**	**(430)bps**	**(350)bps**

1 2013 like-for-like restates 2013 figures at 2014 exchange rates
2 Includes other textile craft products
3 Excluding exceptional items (see note 2 to the Coats financial information on page 107)

In the commentary above, all comparisons with 2013 are on a like-for-like currency basis and all references to operating profit are on a pre-exceptional basis unless stated otherwise.

Financial review

The successful refinancing of our debt facility in early 2015 and reduction in leverage gives us a strong platform to invest in organic and inorganic growth opportunities.

Richard Howes
Chief Financial Officer

Leverage ratio[a]

1.4x

(2013: 1.8x)

NWC as % of sales[b]

11.5%

(2013: 15.1%)

All references to Coats financial performance are to that of 'Coats Group Limited'.

Exceptional items

Net exceptional costs before taxation totalled $23.8 million (2013: $8.5 million). This included an $18.8 million impairment of property, plant and equipment and intangible assets related to EMEA Crafts.

In addition there was a $3.7 million charge relating to costs incurred by the trustee of the Coats Plan in 2014 in responding to tPR's investigation into the scheme, and a provision made for the trustee's expected costs to respond to the Warning Notice received from tPR. There was a $2.9 million gain on the disposal of properties, related to activities in 2014 and prior years, and $4.2 million of other exceptional costs related to the capital incentive plan. This plan is intended to reward the Coats' senior executive team for delivering growth in the value of the Company's investment; the amount incurred in 2015 is expected to reduce.

No exceptional reorganisation charges were incurred in 2014 (2013: $21.6 million). Operating profit includes approximately $8 million of reorganisation related costs that have not been classified as exceptional.

Non-operating results

The share of profit from joint ventures was $1.5 million (2013: $0.7 million).

Excluding IAS19 pensions interest, finance costs reduced by 7% to $27.4 million (2013: $29.4 million) as a result of lower year-on-year net debt and a reduction in the margin over LIBOR on borrowings as a consequence of lower leverage.

The taxation charge for 2014 was $45.6 million (2013: $51.0 million) resulting in a reported tax rate of 60%. Excluding all exceptional items and the impact of IAS19 finance charges, the underlying effective rate on pre-tax profits reduced by 500bps to 42% (2013: 47%). The reduction was primarily driven by a change in mix as regions with lower statutory tax rates contributed higher profits and a reduction in unrelieved losses in the year.

Profits attributable to minority interests were $9.6 million in 2014 (2013: $7.8 million).

Net profit attributable to equity shareholders, on a pre-exceptional basis, was $45.1 million, a 21% year-on-year improvement (2013: $37.3 million). Including exceptional items and their associated tax effect, Coats generated a reported attributable profit of $21.2 million (2013: $29.2 million).

Investment

During 2014 investment continued to be made to support business growth and to further improve Coats' operational performance. Investment in new plant and systems amounted to $47.4 million (2013: $37.8 million).

The year-on-year increase was driven by investment in IT, digital services and efficiency initiatives, such as the construction and commissioning of a bio mass plant for steam generation at an Indian factory. Capital expenditure was 1.0 times depreciation (including computer software amortisation) for 2014 (2013: 0.8 times).

Cash flow

Adjusted free cash flow of $70.1 million was up 30% on 2013 ($54.1 million). This excludes reorganisation spend of $3.7 million related to expenses incurred in 2013 (2013: $27.7 million), a $1.8 million tax inflow (repayment) related to a US antitrust litigation (2013: $8.2 million non-tax related outflow) and proceeds from property disposals, including tax, of $3.6 million (2013: $26.6 million). Free cash flow was $71.8 million (2013: $44.8 million).

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was $179.4 million (2013: $181.6 million).

Net working capital as a percentage of sales fell year-on-year to 11.5% (2013: 15.1%) resulting in a cash inflow of $41.1 million. This improvement was driven by a continued focus on all aspects of working capital, with improvements made in Industrial inventory and debtor management, as well as reduced Crafts sales.

Interest paid decreased to $21.9 million (2013: $26.2 million), as a result of lower year-on-year net debt and lower interest rates achieved on borrowings.

Taxation paid was $56.0 million, compared to $53.3 million in 2013. Excluding the tax impact of exceptional items, taxation paid in 2014 declined by $2.5 million in 2014 to $53.3 million (2013: $55.8 million).

Pension payments increased to $37.7 million in 2014 (2013: $25.6 million) due to higher recovery plan contributions to the UK funded scheme, in line with the recovery plan agreed with the Coats Plan trustee in 2013.

Balance sheet

Due to the strong cash flow performance net debt reduced to $262.6 million (2013: $329.2 million).

An important metric for the Coats Group is the leverage ratio of net debt to EBITDA. Under the definitions of net debt and EBITDA prescribed in Coats' senior debt facility, net debt at 31 December 2014 was 1.4 times EBITDA of the preceding twelve months (31 December 2013: 1.8 times). Coats is comfortably within the covenant limit of 3.0 times.

Equity shareholders' funds decreased from $226.2 million at 31 December 2013 to a deficit of $11.5 million at 31 December 2014. This primarily reflects actuarial losses in respect of retirement benefit schemes of $246.1 million, which more than offset attributable profit of $21.2 million.

Pensions and other post-employment benefits

The net obligation for the Coats Group's retirement and other post-employment defined benefit liabilities was $409.6 million as at 31 December 2014, up from $202.6 million at the end of 2013.

Coats Plan

As at 31 December 2014, the deficit on an IAS19 accounting basis in the Coats Plan, which represents the Group's most significant funded defined benefit arrangement, increased from $129.2 million at the end of 2013 to $333.6 million. The movement was due to an increase in liabilities, which was primarily driven by a 115bps decrease in discount rate, which more than offset a 35bps decrease in the inflation rate. In addition the adoption of revised assumption setting methodologies and the trustee formally adopting improved cash commutation factors for members had a negative impact of approximately $41 million on the deficit. Deficit reduction contributions to the Coats Plan during the year were $23.1 million, which is in line with the 14 year recovery plan agreed with the Coats Plan trustee in 2013 as part of the 2012 triennial valuation.

Other pension and post-employment arrangements

The recognised surplus for the US funded defined benefit scheme increased to $54.8 million as at 31 December 2014 (31 December 2013: $47.1 million), while the overall net deficit on other plans was $130.8 million (31 December 2013: $120.5 million).

Refinanced debt facility

In February 2015 Coats successfully replaced its $760 million syndicated bank facility with a new $680 million, five year revolving facility. The new facility, which matures in February 2020, was oversubscribed and is syndicated among a changed group of international banks, which better reflects Coats' global footprint. It features a lower margin, approximately 25bps, compared with the previous facility and indicative pricing for 2015 is LIBOR plus 150bps. The size of the new facility reflects Coats' ability to generate free cash. There is no change to the financial covenants, namely, net debt will not exceed three times EBITDA and EBITDA will not be lower than four times net finance charges.

Richard Howes,
Chief Financial Officer
Coats Group plc

18 March 2015

a Under the definitions of net debt to EBITDA prescribed in Coats' senior debt facility
b Net working capital as a percentage of sales

Sale of EMEA Crafts

Coats announced an agreement to sell its EMEA Crafts business to the Aurelius Group on 19 February 2015 for a total consideration of US$10.0 million, payable in cash on completion and subject to customary adjustments. As part of the sale an amount of cash will be retained within the business being sold, which is expected to result in the transaction being marginally cash negative. The sale followed a comprehensive review of the business, including its strategic fit within Coats, and the formulation of a turnaround plan. The sale better positions Coats for future profitable growth and allows it to focus attention on its high performing global Industrial and strong Americas Crafts businesses. The sale is subject to a limited number of conditions usual for this type of transaction and is expected to complete in Q2 2015.

As part of the strategy review and sales process it was decided that the UK Crafts business should remain within Coats. This decision was based on a number of factors, including the long heritage of Coats in the UK and the due diligence requirements for any buyer in relation to the ongoing tPR investigations. On balance it was concluded that retaining the business would generate the best overall value to shareholders.

In 2014 EMEA Crafts (excluding the UK) generated revenues of $124.9 million and a pre-exceptional operating loss of $9.8 million. Including exceptional items, namely an $18.8 million impairment of property, plant and equipment and intangible assets, EMEA Crafts incurred an operating loss of $28.6 million. As at 31 December 2014, after impairment, the business had net tangible assets of $35.4 million, including cash retained within the business as part of the sale. Given the total consideration of $10 million for the business compared to its net tangible asset position of $35.4 million at 2014 year end, and taking into account completion adjustments and disposal-related costs, a substantial loss on disposal is expected to be recognised on completion of the transaction. The precise quantum will be finalised on completion and will in addition include historical foreign exchange translation gains and losses previously recognised in equity. The results of the EMEA Crafts business (excluding UK) together with the loss on disposal will be presented as a discontinued operation when the Group reports its 2015 half year results.

On completion of the sale Coats expects to provide some transitional support services to the EMEA business under new ownership for a period of time. However during the transition period Coats will continue to incur some costs previously allocated to the EMEA Crafts business, thereby impacting Coats' 2015 operating profit from ongoing operations. These costs will be subject to review during 2015 to ensure Group operating margins will not be negatively affected in the medium term.

Principal risks and uncertainties

Coats faces a wide range of commercial and operational risks

While our risk management process is driven from Board level, identifying, assessing and managing risks is embedded into our day to day operations. Overlaying Coats' positive business principles and culture are formal structures and reporting procedures, including the Internal Audit Function and the Operational Risk Management Committee (ORMC), which comprises a broad mix of managers across the business and is chaired by the Group Chief Executive.

Risk	Nature of risk	Action/mitigation
Strategy and strategic planning risks		
Delivery of strategy	A lack of resource, poor project management, lack of skills or lack of acceptance in the market may result in not delivering growth projects. Consequently profitability goals are not achieved or the market multiple is materially below target.	Projects are managed by a dedicated team and sponsored by a member of the Coats Management Board or Industrial or Crafts Americas Leadership Teams. They are controlled by a Steering Committee and monitored financially. The Board receives regular progress reports and sets targets for profitable sales.
Recruiting, maintaining and motivating high-quality staff	Not identifying and retaining key staff or improving their skills and knowledge may result in an inability to execute growth strategy.	HR policies cover reward and recognition, health and safety, talent management, skills assessment and development, performance management, succession planning and employee consultation. An annual group-wide employee satisfaction survey flags any areas for concern which are then acted on. An annual survey of pay and benefits ensures that terms and conditions of employment remain competitive.
Financial risks		
Pensions	Fluctuations in discount rates, investment values and returns, inflation and/or member longevity in the defined benefit pension arrangements result in funding burdens on the Group in the future.	Pension position and strategy is regularly reviewed by the Board. Funded pension schemes are overseen by their trustees. Trustees are required to have the appropriate knowledge and understanding in this area and take professional and actuarial investment advice as necessary. Where appropriate independent professional trustees are appointed to schemes to provide additional expertise. Coats and the trustees seek to de-risk the scheme through liability management and investment strategies to reduce the impact of fluctuations.
Treasury	An exposure to uncertainties in financial markets and the banking sector including foreign exchange, interest rate, credit and liquidity risks as well as the risk of bank failure.	Coats' policies cover all aspects of its Treasury operations, providing strict controls on managing risks and bank selection.
	Coats may be unable to present itself as an attractive candidate for financing.	Compliance with the terms of Coats' senior bank facility agreements is actively monitored. There is regular contact with core relationship banks and alternative sources of finance have been identified. In 2015 debt facility was successfully refinanced and maturity extended to 2020.
Operational risks		
Information Technology (IT)	Unauthorised access to Coats IT systems and data may result in the theft of data or the disruption of business processes.	Standard firewall capability is overseen by an external vendor. Coats' networks are actively monitored and multiple layers of password protection are used at device and application level. Communications with portable devices are encrypted. Coats ensures all internal users have appropriate access rights and permissions for their roles.
	An inability of Coats' IT network and systems to perform critical transactions and processes may result in business disruption.	Coats has sufficient network capacity and established IT systems in place with Group and Divisional IT teams to manage the IT risks.

Risk	Nature of risk	Action/mitigation
Supplier dependency	If one or more major external suppliers is unable or unwilling to supply goods it may cause major disruption to the Coats supply chain that cannot be replaced in the short-term, leading to lost contribution and long-term impact on customer relations.	Supplier relationships and external supply chains are monitored and managed, with multiple sourcing of materials and strategic inventories. Regular supplier meetings include detailed discussions of market conditions and supply expectations. Risk is spread by dealing with more than one supplier on each key material and continual identification of new supply sources. Global insurance programmes include supplier dependency cover.
Internal supply chain	Disproportionate reliance on critical internal supply chain nodes may have a significant impact on profitability in the event of disruption to any of them.	Manufacturing and supply chain function monitors and reviews internal supply chains, fire protection systems and creates and tests disaster recovery plans. Rolling property risk surveys are conducted of all Coats critical supply chain nodes. The implementation of the risk reduction recommendations is actively monitored and where necessary capital expenditure is prioritised. Global insurance programmes include property destruction and business interruption cover.
Customer dependency	Key Crafts customers reduce shelf space for a group of products which Coats supplies or engages in price negotiation, materially reducing the contribution earned by the business.	Strong commercial relationships are maintained with senior level management with direct access to final decision makers. Coats works to ensure a high degree of customer collaboration, communication and management attention to POS data and weekly replenishment levels. It provides a high level of service/stock availability. Significant investment in pattern/design support, product promotions and consumer advertising undertaken to boost in-store footfall and sales growth. Strategic marketing has targeted craft consumer demographics, in-store buying behaviour and positive correlation to store sales in other categories.
Environmental	Non-compliance with internal environmental control procedures or local requirements (if these are stricter) leads to a serious pollution event having an adverse impact on operations and resulting in regulatory action being taken. This results in litigation, resultant damages and damage to reputation.	Management aims to achieve the highest practicable standards of environmental performance. All environmental issues are reported to the Group's Audit and Risk Committee and Management Board through a semi-annual Risk Questionnaire completed by all operating units. All sites must comply with local legal requirements for effluent quality and volume and hold the relevant permit to discharge. Coats has 'Global Water Effluent Limits', a set of 15 parameters with the strictest limits of any local authority across three downstream categories. Global insurance programme includes cover for 3rd Party property damage and injury or illness resulting from pollution of air, water or soil caused by a sudden or unforeseen incident.
	Coats may be held responsible and accountable for clean-up/remediation costs of legacy environmental issues originating before it acquired those sites or after their disposal/closure.	Appropriate checks are undertaken on sites we are looking to acquire, and we conduct ongoing monitoring of current sites. Every step appropriate is taken to ensure closed and/or sold sites are cleaned up.
Labour relations	Poor labour relations in critical manufacturing sites could result in disruption to business.	An annual Employee Engagement satisfaction survey is conducted and relevant strategies developed and implemented to address concerns. In the event of disruption, Coats can move production to other sites.

Principal risks and uncertainties continued

Risk	Nature of risk	Action/mitigation
Health and Safety (H&S)	Non-compliance with internal H&S procedures or local requirements (if these are stricter) may lead to the injury or death of individuals. As well as being a failure of its duty of care to its employees and contractors, this adversely impacts operations and results in regulatory action being taken. This results in litigation, resultant damages and damage to reputation.	Group H&S Policy requires high standards of H&S management at all sites, implemented through performance monitoring, risk assessment and management and mitigation of identified risks. The most senior manager for each business unit is responsible for H&S, supported by site managers and senior HR officers who are responsible for ensuring all activities under their control are carried out in line with the Group H&S Policy and management systems. Every unit is required to report its H&S KPIs to the Group Risk Manager who reports them to the Board. Each site has an H&S Manager who as a minimum must be trained and qualified according to local legislation. All employees are responsible for reporting all incidents and near misses on site and on the way to or from work to their H&S Manager.
Product liability	Increased focus on growth of Speciality products potentially leads to more exposure to Product Liability claims.	Products are tested and measured against stringent standards with quality control teams periodically improving and measuring progress. Coats' global insurance programme includes product liability cover.
Compliance and ethics risks		
Non-compliance with laws and regulation	Non-compliance with any applicable laws/regulations (including those relating to bribery and corruption, human rights and competition/anti-trust) by Coats or one of its major trading partners results in civil or criminal liabilities, individual or corporate fines and reputational damage. It could also result in being excluded from government related contracts.	Coats is committed to the highest standards of corporate and individual behaviour as set out in the Ethics Policy and the Code of Business Conduct. Online compliance training on anti-bribery and corruption, competition/anti-trust and ethics is repeated periodically for all senior employees and those in high risk positions. The Chief Legal & Risk Officer and Group Company Secretary attends and also sits as a member of the Management Board. Coats has a whistle-blower system, enabling employees who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of assets or violations of any group policy, to report these confidentially.

The Strategic Report comprising pages 2 to 20 was approved by the Board on 18 March 2015.

Mike Clasper
Chairman
Coats Group plc

Chairman's introduction

I am pleased to introduce the Corporate Governance Report. This is the first since I became Chairman and since we made the corporate and Board changes announced on 26 February 2015.

I believe it is essential that every company has in place robust corporate governance arrangements to underpin the work of the Board. We have worked hard during the year to develop our governance structures to ensure they are appropriate and to support our transition from an investment company, with a diversified portfolio of assets, to a global manufacturing business with FTSE 250 aspirations. In this section of our Annual Report we have set out our approach to governance and provided further information on the operation of the Board and its Committees. Some of this report refers to arrangements which were in place during the financial year ended 31 December 2014. We have also set out our current arrangements and indicated where these will change going forward.

Governance

Other than as referred to in this report, the Company complied with the UK Corporate Governance Code issued in September 2012 (the Code) and with its equivalent in Australia. It should be noted that the Code may materially differ from the corporate governance rules of NZX Limited (NZX) and the principles of NZX's Corporate Governance Best Practice Code but the Company is not obliged to comply with these.

Board composition and succession planning

I was appointed to the Board on 20 February 2014 and became Chairman on 16 April when Rob Campbell stepped down as Chairman. Rob remained a Director until his resignation on 2 March 2015. I would like to take this opportunity to thank him for his time as Chairman and as a Director. Scott Malcolm and Waldemar Szlezak also resigned on 2 March 2015 and the Board thanks them for their contributions during the successfully completed asset realisation programme.

We were delighted to welcome a number of new Directors to the Board. Ruth Anderson joined the Board as an independent Non-Executive Director on 16 April 2014 having joined the Board of Coats plc on 2 January 2014. On 2 March 2015 the five Directors of the subsidiary company, Coats plc, who were not already on the Board of Coats Group plc were appointed to it. David Gosnell and Alan Rosling both joined as independent Non-Executive Directors bringing the total number of independent Directors, excluding me, to four while Paul Forman, Richard Howes and Rajiv Sharma joined the Board as Executive Directors.

I believe that these appointments result in a strong Board with the appropriate mix of skills and experience. We will, however, keep this under review. The Nominations Committee, which I chair, will review the Board's structure, size and composition and make recommendations to the Board on succession planning, taking into account the challenges and opportunities facing the Company. Our Directors' experience is varied and they bring a wealth of knowledge and skills to bear on all aspects of the management of the Group. Biographical details, which include a summary of particular experience, skills and qualifications are set out on page 26 to 27 of this report. Senior management are regularly invited to attend Board meetings to present and there is an effective level of communication, challenge and support between the Board and management.

Board focus

Naturally, during 2014 the Board concentrated most of its work on stewardship of the Company and engaging actively with the UK Pensions Regulator (tPR).

Supported by the Audit and Risk Committee, the Board has also increased and deepened its focus on risk over the period. The Financial Reporting Council has highlighted, in the 2014 Code, that companies are expected to give a broader and clearer view of risk management than may have been the case previously. We provide an overview of Principal risks and uncertainties on pages 6 to 7 and 18 to 20.

Further detail on the matters discussed by the Board through the year is set out on page 28 of this report.

Mike Clasper
Chairman
Coats Group plc

18 March 2015

Board of Directors

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1. Mike Clasper, CBE

Chairman

Mike has over 35 years' experience in general management and marketing for global companies, with a particular focus on brands and business services.

He is currently Chairman of Which? Ltd., is the Senior Independent Director at Serco Group plc and was until recently Senior Independent Non-Executive Director of ITV plc. Mike is also President of The Chartered Management Institute.

Mike has served as Chief Executive Officer of BAA plc, Chairman of HM Revenue & Customs, Operational Managing Director at Terra Firma, and also held a number of senior management positions at Procter & Gamble.

He holds an MA in Engineering, St John's College Cambridge.

Appointed: February 2014 (Previously appointed to Coats plc Board, August 2013)
Committee member: Nominations (Chair)

2. Mike Allen

Independent Non-Executive Director

Mike has over 25 years' experience in investment banking and general management, both in New Zealand and the UK.

He is a Non-Executive Director of Watercare Services Ltd., Godfrey Hirst NZ Ltd. and Tainui Group Holdings Ltd.

Mike is also the current Chairman of PGG Wrightson Finance. He previously held various senior roles at Southpac Corporation and Westpac in New Zealand.

Appointed: September 2010
Committee member: Remuneration; Nominations

3. Ruth Anderson

Independent Non-Executive Director

Ruth is a chartered accountant and worked with the accounting firm KPMG LLP for 33 years, from student accountant to UK vice chairman. While at KPMG she worked with many global businesses.

Ruth is currently Non-Executive Director at Ocado Group plc and Travis Perkins plc.

She is also a Director of The Royal Parks, which is an executive agency of the Department of Culture Media and Sport and is a trustee of the Duke of Edinburgh's Award Charity. She was born in Enniskillen, Northern Ireland and has a BA in French and Spanish from the University of Bradford.

Appointed: April 2014 (Previously appointed to Coats plc Board, January 2014)
Committee member: Audit and Risk (Chair), Nominations

4. Sir Ron Brierley
Non-Executive Director
Sir Ron Brierley founded Brierley Investments Ltd in 1961.

He was appointed in March 1990 to the Board of GPG, now known as Coats Group plc, and continued to apply and develop his established approach within the Company. On 9 December 2010 he retired as Chairman of the Company but remains on the Board as a Non-Executive Director.

Appointed: March 1990
Committee member: Nominations

5. Paul Forman
Group Chief Executive
Paul joined Coats in November 2009 and became Group Chief Executive on 31 December 2009.

Paul has wide experience in global manufacturing, as well as strategy consultancy and M&A advisory services.

Before joining Coats he was Group Chief Executive of Low & Bonar PLC, a global performance materials group, quoted on the London Stock Exchange, and prior to that was MD at Unipart International, the leading European automotive aftermarket supplier.

Paul has served as a Non-Executive Director at Brammer PLC from 2006 to 2010 and on 1 January 2015 was appointed a Non-Executive Director at Tate & Lyle plc.

Paul holds an MA in English from Fitzwilliam College, Cambridge.

Appointed: March 2015 (Previously appointed to Coats plc Board, December 2009)

6. David Gosnell
Independent Non-Executive Director
David has over 30 years' experience in supply and procurement strategy and execution.

In December 2014, he retired from Diageo plc where he had most recently held the role of President of Global Supply and Procurement. He led a team of 9,000 people around the world across manufacturing, logistics and technical operations as well as managing Diageo's global procurement budget.

Prior to joining Diageo, David spent 25 years at HJ Heinz in various operational roles. David is also currently Non-Executive Director of Brambles Ltd, the supply chain solutions provider.

He holds a BSc (Hons) in Electrical and Electronic Engineering from Middlesex University and has completed Supply Chain Manufacturing – Drive Operational Excellence at INSEAD (Singapore).

Appointed: March 2015 (Previously appointed to Coats plc Board, February 2015)
Committee member: Audit and Risk; Remuneration (Chair); Nominations

7. Richard Howes
Chief Financial Officer
Richard joined Coats as Chief Financial Officer in February 2012. Previously he held the equivalent position at Topaz Energy and Marine, an oil field services company.

Richard also worked for FTSE 250 company Geest plc, an international food manufacturer, and was made CFO following its takeover by the Bakkavor Group. Richard qualified as a Chartered Accountant with Ernst & Young before joining Dresdner Kleinwort Benson's Corporate Finance team.

His experience encompasses a broad range of financial and commercial responsibilities including debt and equity capital market transactions and M&A as well as leading senior management functions.

Richard holds a BSc (Hons) in Geography from Loughborough University.

Appointed: March 2015 (Previously appointed to Coats plc Board, February 2012)

8. Blake Nixon
Non-Executive Director
Blake Nixon has wide corporate experience in the UK and overseas.

He is a founding partner of Worsley Associates LLP, an activist fund manager. On 30 June 2011 Blake ceased to be an Executive Director and became a Non-Executive Director of GPG, now known as Coats Group plc.

Appointed: March 1990
Committee member: Nominations

9. Alan Rosling, CBE
Independent Non-Executive Director
Alan's international experience spans business development and the energy, government and policy, textiles and banking arenas.

Alan chairs Griffin Growth Partners, a specialist strategic advisory firm that assists clients in developing and implementing winning strategies in India. He is also co-founder of Kiran Energy, a solar power developer based in Bombay and was previously an Executive Director of Tata Sons, where his responsibility was internationalisation of the Tata Group. From 1998 to 2003 he was Chairman of the Jardine Matheson Group in India.

His earlier career included positions as Special Advisor to the British Prime Minister, Rt. Hon. John Major MP, and as a member of the Policy Unit at No.10 Downing Street; Strategy Development Director, United Distillers plc; Chief Executive, Piersons (a division of Courtaulds Textiles plc); and an investment banker with S.G. Warburg & Co Ltd.

Alan was educated at Downing College, Cambridge, and the Harvard Business School. He was made an OBE in 1994 and a CBE in 2014.

Appointed: March 2015 (Previously appointed to Coats plc Board, October 2011)
Committee member: Audit and Risk; Remuneration; Nominations

10. Rajiv Sharma
Global CEO, Industrial
Rajiv joined Coats in November 2010 to lead the Industrial business and is responsible for its global operations.

Prior to joining Coats, Rajiv worked at companies such as Westinghouse, SAAB, Honeywell, GE and Shell, and his experience spans sales, marketing, M&A, business development and operations. The majority of his career has been dedicated to growing or turning around businesses.

Rajiv has a degree in Mechanical Engineering, as well as an MBA from the University of Pittsburgh, USA. He has lived in many different countries and covered all continents during his career.

Appointed: March 2015 (Previously appointed to Coats plc Board, December 2014)

During the year Rob Campbell, Scott Malcolm (Chair of the Remuneration and Nominations Committee), and Waldemar Szlezak served on the Board. All stepped down with effect 2 March 2015.

Directors' report

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2014.

Stuart Morgan
Company Secretary

Results and dividends
The results of the Group are shown on page 46 and movements in reserves are set out in note 28 to the financial statements.

The Company paid no interim dividend in respect of the year ended 31 December 2014 (2013: £Nil). The Directors do not propose a final dividend (2013: £Nil).

Post balance sheet events
On 19 February 2015 the Company announced that Coats had agreed to sell its EMEA Crafts business to Aurelius Group. This transaction is expected to complete in Q2 2015.

On 26 February 2015 the name change from Guinness Peat Group plc to Coats Group plc became effective.

Share capital
Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 27. The Company has one class of Ordinary Shares, which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions or agreements known to the Company that may result in restrictions on share transfers or voting rights in the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation.

Shareholder authority for the Company to purchase up to 210,944,275 of its own shares was granted at the 2014 Annual General Meeting. No shares were purchased pursuant to this authority during the year.

Shareholder authority for the Company to allot shares up to an aggregate nominal amount of £23,453,888 was granted at the 2014 Annual General Meeting. No shares were allotted pursuant to this authority during the year. However, taking into account allotments during the year following the exercise of options by the Company's share option scheme participants, the issued share capital of the Company at 31 December 2014 was £70,380,614 divided into 1,407,612,282 ordinary shares of 5 pence each. The Company's Ordinary Shares are listed on the London Stock Exchange, the main Board equity security market operated by NZX Limited (the 'New Zealand Stock Exchange') and on the Australian Securities Exchange. The principal register is held in the UK. Branch registers are maintained in New Zealand and Australia.

Property, plant and equipment
Details of property, plant and equipment are set out in note 14 to the financial statements.

Research and Development (R&D)
The Group has a number of ongoing R&D projects focused on developing added value products aimed at the industrial market segments, as well as continuing to develop its proprietary colour management systems.

Employee issues
A description of the Company's employee policies applied during the year and details of our Employee Engagement survey can be found on page 12 of this Annual Report.

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Substantial interests

As at 31 December 2014 the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company (See table below).

Substantial interests

Holder		
Quantum Strategic Partners	133,201,970	9.01%
M&G Investment Funds	102,376,275	7.27%
Orbis Holdings Limited	88,157,848	6.26%
MSD Capital	79,606,443	5.66%
Invesco Asset Management Limited	73,120,000	5.19%

Since the year end and up to 18 March 2015 the Company has not received notifications of any changes, in accordance with Chapter 5 of the Disclosure and Transparency Rules.

Financial instruments

Disclosure of the use of financial instruments by the Group can be found in note 35 to the financial statements.

Political donations

No contributions were made to political parties during the year (2013: £Nil).

Directors and their responsibilities

The current Directors who served during the year and up to the date of this report are detailed on pages 22 to 23.

Details of those Directors seeking election or re-election at the forthcoming Annual General Meeting of the Company will be included in the Notice of that meeting to be sent to shareholders in due course.

A report on Directors' responsibilities appears on page 41.

Further discussion of the Board's activities, powers and responsibilities appears within the Corporate governance section on pages 26 to 28. Information on compensation for loss of office is contained in the Directors' remuneration report on pages 32 to 40.

Greenhouse Gas Emissions

For the year ended 31 December 2014, Coats reported the following emissions:

Global tonnes of $CO2e^{a,b}$	2014	2013
Direct (Gas, coal, oil)	93.1	114.2
Indirect (Electricity)	251.5	247.6

a Based on 2014 UK DEFRA GHG reporting guidance and conversion factors. Includes Scope 1 – direct emissions from the combustion of fuel (Gas, Coal and Oil) and Scope 2 – indirect emissions from the purchase of electricity.

b Emissions reported are from energy consumption in our global operations.

Details of Coats' emissions per kg of dyed product are provided on page 13 of this Annual Report.

Auditor

A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2015 Annual General Meeting. A statement in respect of the auditor, in accordance with Section 418 of the Companies Act 2006, has been included in the Directors' responsibilities statement on page 41.

Disclosures required under Listing Rule 9.8.4R

There is no information required to be disclosed by Listing Rule 9.8.4R.

This Directors' Report was approved by order of the Board.

Stuart Morgan
Company Secretary
Coats Group plc

18 March 2015

Corporate governance

Listings

The Company is a premium listed issuer on the London Stock Exchange and its shares are also quoted on the Australian Securities Exchange ('ASX') in CDI form. In addition it is an Overseas Listed Issuer on the New Zealand Stock Exchange.

Compliance

The Board of Directors remains fully committed to the principles of best practice in corporate governance and throughout 2014 has complied, except as otherwise noted, with the UK Corporate Governance Code issued in September 2012 (the Code) which can be found at www.frc.org.uk.

As an ASX listed company the Company is required to explain any deviation from the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) (ASX Governance Principles). More information on the ASX Governance Principles can be found at www.asx.com.au. It should be noted that the Code may differ materially from the corporate governance rules and the principles of NZX's Corporate Governance Best Practice Code but the Company is not obliged to comply with these.

Leadership

The Role of the Board

The Board is responsible to the shareholders for the management of the Group's assets and operation. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group. During the year under review, the Directors were situated in the UK, Australia, New Zealand and the United States of America and had in place suitable communication and reporting systems which enabled them to monitor, on a timely basis, the Group's activities.

The Board is responsible for the Group's strategy and for its overall management. All matters are reserved for the Board unless specifically listed in the terms of reference for Committees of the Board or where the Board has delegated its authority. A formal schedule of delegated authorities is reviewed by the Board annually.

Composition of the Board and Board Meetings

During the year under review, the Board considered the Company a small company for the purposes of the Code and, as such, had, at all times during 2014, at least two independent Non-Executive Directors as prescribed by the Code. The Board currently consists of an independent Chairman, six Non-Executive Directors and three Executive Directors. Four of the Non-Executive Directors are considered to be independent and free of any business relationships that could compromise the exercise of independent and objective judgement. Two Non-Executive Directors are not considered independent. Sir Ron Brierley is not considered to be independent because of his length of service and Blake Nixon was previously an Executive Director.

All the Directors, whether judged independent or not, challenge assumptions effectively and assist management in the development of strategy and the effective leadership of the Group.

The Board met regularly throughout the period. There were nine scheduled meetings in 2014. Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. The Directors were located in the UK, Australia, New Zealand and the USA and this geographical diversity meant that it was not always possible for every Director to attend all Board and Committee meetings. In the event that Directors were unable to attend a meeting, their comments on papers to be considered at the meeting were discussed in advance with the Chairman so that their contribution could be included in the wider Board discussion.

The table at the foot of this page shows Directors' attendance at scheduled Board and Committee meetings in 2014.

Governance structure

Division of responsibilities between the Chairman and Chief Executive

During the year under review, the Company was an investment holding company and had no Executive Directors and so there was no requirement to formally document the separate roles and responsibilities of a Chairman and Chief Executive. Following the appointment of the Chief Executive, Paul Forman to the Board on 2 March 2015, this separation has been documented.

Role of the Chairman

Mike Clasper, the Chairman, leads the Board, and is responsible for its effectiveness and governance. He sets the tone for the Company and ensures that the links between the Board and management and between the Board and shareholders are strong. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to strategy issues.

Mike Clasper was appointed to the Board on 20 February 2014. Further information on Mike is set out on page 22 along with the biographies of the other Directors.

Role of the Chief Executive

Paul Forman was appointed to the Board on 2 March 2015, having been Chief Executive of Coats plc since 31 December 2009.

Paul is responsible for the day-to-day management of the Group's operations, for recommending the Group's strategy to the Board and for implementing the strategy agreed by the Board. He is supported in decision-making by a Management Board comprised of senior managers.

Senior Independent Director

The Code provides that a company should identify a senior independent Non-Executive Director. During the year under review, the Company did not have such a designated director and the independent Non-Executive Directors collectively fulfilled the role set out in the Code in respect of a senior independent director. In particular, in respect of shareholder communications with the Board, if a shareholder found that contact through the normal channels of the Chairman had failed to address particular

Directors' attendance at 2014 Board and Committee meetings

Director	Board	Audit and Risk	Remuneration and Nominations[2]
Mike Clasper (Chairman) (appointed 20 February 2014) [1]	8/8	N/A	3/3
Mike Allen	8/9	N/A	3/3
Ruth Anderson (appointed 16 April 2014)	5/6	4/4	3/3
Sir Ron Brierley	5/9	N/A	3/3
Rob Campbell (resigned 2 March 2015)	8/9	N/A	3/3
Scott Malcolm (resigned 2 March 2015)	8/9	N/A	3/3
Blake Nixon	8/9	7/7	3/3
Waldemar Szlezak (resigned 2 March 2015)	3/9	N/A	2/3

1 Mike Clasper also attended the Board meeting on 12 February by invitation
2 Since 2 March 2015 the work of this Committee has been split between two new Committees: the Remuneration Committee and the Nominations Committee

concerns, then these could be conveyed to any of the independent Non-Executive Directors whose wide experience enabled them to deal appropriately with any such enquiries.

Following the structural changes announced on 26 February 2015, the Board intends to appoint a Senior Independent Director in due course.

Board Committees
The Board has delegated specific responsibilities to each of the Audit and Risk, Remuneration and Nominations Committees, details of which are set out below. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee Terms of Reference are available via the Company's website www.coats.com.

The Terms of Reference are kept under review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. They are reviewed formally on an annual basis by the relevant Committee and the Board. The Chairman of each Committee reports on the proceedings of the previous Committee meeting at the following Board meeting matters.

Audit and Risk Committee
During 2014 this Committee consisted of Ruth Anderson as Chairman from 16 April 2014, and Blake Nixon (previously Chairman) and David Wadsworth FCA. David Wadsworth is not a Director of the Company but was appointed in 2009 to comply with the Code requirement that the Committee included a member with recent and relevant financial expertise. Mr Wadsworth was formerly a partner at Deloitte LLP. Ruth Anderson, who was appointed as Chairman on 16 April 2014 also has recent and relevant financial expertise. Mr Wadsworth resigned on 28 February 2015. The composition of the Committee was not fully compliant with the Code or the ASX Governing Principles throughout 2014 as it did not have the requisite number of independent Non-Executive Directors. However, following the appointment of David Gosnell and Alan Rosling to the Committee on 2 March 2015 it is now fully compliant. It was compliant with the ASX Governance Principles recommendation that the Chairman be an independent Director from the date of the appointment of Ruth Anderson.

Remuneration and Nominations Committee
During the year under review, this Committee consisted of Scott Malcolm as Chairman together with all other Non-Executive Directors of the Company. During the year, the Committee monitored, reviewed and set the Group's remuneration policy as set out in the Directors' remuneration report on pages 32 to 40. It was also tasked with establishing and agreeing with the Board the policy for Board appointments.

During the year under review, the Committee performed the functions of the Nominations Committee. Following careful consideration by all members of the Board, Mike Clasper was appointed to the Board on 20 February 2014 and Ruth Anderson was appointed to the Board on 16 April 2014. At the time of their appointments, both were directors of Coats plc (having been appointed in August 2013 and January 2014 respectively) following a thorough recruitment process involving external search consultants, the Inzito Partnership, which has no other connections to the Company.

With effect from 2 March 2015, following careful consideration by the Board, the following directors of Coats plc were appointed to the Board: Alan Rosling, Paul Forman, Richard Howes, and Rajiv Sharma. David Gosnell was also appointed to the Board with effect from that date, having been appointed as a director of Coats plc in February 2015 following a thorough recruitment process involving the Inzito Partnership.

When searching for candidates for Board appointments, the Board seeks to make appointments on merit against objective criteria with due regard to the benefits of diversity. This includes gender diversity.

On 2 March 2015 the Committee was renamed the Remuneration Committee and its nomination work was transferred to a new Nominations Commmittee. Both Committees have written terms of reference which are available via www.coats.com.

Remuneration Committee
The Remuneration Committee is currently chaired by David Gosnell and its other members are Alan Rosling and Mike Allen.

Nominations Committee
The Nominations Committee is chaired by Mike Clasper and its other members comprise all the Non-Executive Directors.

Pensions Committee
The Pensions Committee is an ad hoc committee of the Board which has been formed specifically to manage tPR related pensions issues and have oversight of the Company's pension strategy. The Board has delegated certain authorities relating to, amongst other matters, the approval of tPR related legal fees incurred. The Committee reports and makes recommendations to the Board on a regular basis. The Committee is chaired by Mike Allen and, from 2 March 2015, its other members are David Gosnell; Ruth Anderson; Blake Nixon; and Richard Howes. Prior to 2 March 2015, during year under review, the Committee consisted of Mike Allen as Chairman; and its other members were Rob Campbell; Scott Malcolm; and Blake Nixon.

Effectiveness
The skills and experience of the Board are set out in their biographical details on pages 22 and 23. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

Induction of new Directors
On joining the Board, all Directors undergo a thorough induction programme. Ordinarily, Directors are advised of the time required to fulfil the role prior to appointment and are asked to confirm that they can make the required commitment before an appointment is made. However, as a result of the evolving asset value realisation process which concluded in 2013, together with the more recent need to address tPR's investigations, it has not been possible to quantify the time commitment required from Directors, nor the commitment which will be required going forward. The letters of appointment of Non-Executive Directors, therefore, do not set out their expected time commitment, although all Directors have undertaken to provide sufficient time to engage effectively on behalf of shareholders. The Board is satisfied that each of the Non-Executive Directors has been able to devote sufficient time to the Company's business.

Evaluation
During the year, the Board conducted a formal evaluation of its members. Each Director was invited to submit an evaluation of their performance during the year with particular regard to how they have contributed to the effectiveness and timeliness of the asset realisation process, the functional wind-down of GPG operations, the preparation process to allow Coats to stand alone and the handling of the tPR investigations, as well as their contributions and commitments to the Board and its Committees. The Chairman of the Board was invited to comment on each evaluation. The Chairman's evaluation was considered by the other members of the Board. The outcome of these evaluations allows the Board to conclude that it is

Corporate governance continued

satisfied with the effectiveness and appropriateness of the composition of the Board and its Committees.

Continuing development
All Directors are advised of changes in relevant legislation and regulations and changing risks, with the assistance of the Company's advisers where appropriate.

Directors' interests
The interests of the Directors, including their connected persons, in the share capital of the Company and its subsidiaries are set out in the Directors' remuneration report on pages 32 to 40. No Director, either during or since the end of the year under review, was or has become interested in any material contract (not being a contract of employment) with the Company or any of its subsidiaries.

Conflicts of interest
At each meeting the Board considers Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

Independent professional advice
Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Group Company Secretary who is responsible for advice on corporate governance matters to the Board.

Directors and officers liability insurance
As recommended by the Code, Coats Group plc provides certain protections for directors and officers of companies within the Group against personal financial exposure that they may incur in the course of their duties. In addition, the Company has provided an indemnity for its Directors to the extent permitted by law in respect of the liabilities incurred as a result of their office.

Election of Directors
In accordance with the Articles of Association all the Directors appointed during the year will offer themselves for election by the shareholders at the Annual General Meeting. In addition, Mike Allen will retire by rotation in accordance with the Articles of Association and offer himself for re-election. It is proposed that a resolution will be tabled at the Annual General Meeting to amend the Articles of Association to require all continuing Directors of the Company to offer themselves for election or re-election each year, which is best practice under the Code.

Board decisions and activity during the year
Each year the Board agrees a schedule of regular business, financial and operational matters to be addressed by the Board and its Committees during the course of the year and this ensures that all areas for which the Board has responsibility are reviewed. Directors receive Board and Committee papers one week prior to meetings.

Senior management and professional advisers are invited to attend Board and Committee meetings where appropriate to contribute to discussions and advise members of the Board or its Committees on particular matters. The involvement of the senior management at Board and Committee discussions strengthens the relationship between the Board and its operating business and helps to provide the Board with a greater understanding of operations and strategy.

Accountability

Annual Report and Financial Statements
The Board considers that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Board is responsible for determining the nature and extent of its principal risks and for determining the extent of the Group's risk appetite. The Audit and Risk Committee is tasked with keeping the effectiveness of the Group's risk management framework under review and the Group's approach to the management of risk is set out on pages 6 to 7.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement. In addition, note 35 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors believe that the Company is well placed to manage its business risks successfully.

At the year end the Parent Group had cash totalling £375 million (2013: £383 million). The Parent Group also has various other actual and contingent liabilities. The Board expects to be able to meet these obligations from existing resources. Further information on the net cash position of the Group is provided in the table at the foot of the Consolidated statement of cash flows.

Giving due consideration to the nature of the Group's business and underlying investments, taking account of the following matters: the ability of the Group to realise its liquid investments and to manage the timing of such liquidations; the Group's foreign currency exposures; the potential requirement to provide financial support to the Group's UK pension schemes; the appropriate capital structure to be adopted in the future; and the factors which will determine further returns of surplus cash to shareholders; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the Directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis.

Relations with shareholders

The Group has a dedicated Investor Relations function and a website focussed on information and updates relevant to public shareholders (www.coats.com/investors).

The Board receives regular updates on investor communication activity, changes to the shareholder register and analysis of share price performance.

The Board considers transparency and openness to be a key feature of its stated strategy and endeavours to ensure that both the market and shareholders are made aware, as soon as possible, of any matters which may be of interest and that regular updates are released to the market. The Group has a formal policy on continuing disclosure and communications with shareholders.

Presentations are made to analysts and shareholders covering the Company's Preliminary Results and its half year results each year.

Annual General Meeting

The Board considers the Annual General Meeting ("AGM") to be a useful forum to develop an understanding of the views of its shareholders. At its 2014 AGM the Chairman provided an additional report to shareholders.

Copies of these presentations and reports and the results of proxy voting at the 2014 AGM were released to the markets and can be found on the Company's website www.coats.com.

This year's AGM will be held on 21 May 2015 in London.

Annual statement by the Chairman of the Audit and Risk Committee

Our work during the year has led us to conclude that the internal control and risk management systems within the business remain effective.

Ruth Anderson
Chairman, Audit and Risk Committee

Dear Shareholder,
As Chairman of the Audit and Risk Committee ('the Committee'), I am pleased to report below on the Committee's activities in 2014.

I succeeded Blake Nixon as Chairman of the Committee on 16 April 2014 and I would like to thank him for his work as Chairman. Blake remained a member of the Committee throughout 2014, along with David Wadsworth, who was co-opted onto the Committee in 2009, and both David and I were considered to have the recent and relevant financial experience required by the Code. The attendance of Committee members is set out on page 26. The Group Chairman and senior executives also attended Committee meetings and we received reports from the Operational Risk Management Committee, the meetings of which I have a standing invitation to attend.

One of my first actions as Chairman was to ask the Committee to review its terms of reference; the updated terms of reference can be found via our website at www.coats.com/governance. The Committee has an annual work plan to ensure that it covers all the work required of it and in addition to this plan it considered a number of significant accounting issues which are described in more detail in this report below.

Finally, a key element of the Committee's work is to review the internal control and risk management systems of the business. Our work during the year has led us to conclude that they continue to be effective.

I will be available at the AGM to answer any questions about our work.

Ruth Anderson
Chairman, Audit and Risk Committee

Introduction
The Committee is responsible on behalf of the Board for monitoring, amongst other things:

> the financial reporting process, the integrity of the financial statements of the Company, and any other formal announcements relating to its financial performances and reviewing significant financial reporting judgments contained in them;
> the effectiveness of the internal financial controls and the controls and risk management systems of the Company;
> the terms of engagement of the external auditor, its remuneration, its independence and objectivity and the effectiveness of the external audit process;
> developing and implementing the Company's policy on the supply of non-audit services by the external auditor; and
> compliance with statutory obligations and corporate governance requirements. In particular, during the year it had direct oversight of the financial reporting process of the Company and of its subsidiary Coats plc. Members of the Coats plc board had a general standing invitation to attend the meetings of the Committee. The Committee meets as required in advance of and during the annual audit process and to consider the final output, as well as to consider the half-year announcement.
> The Committee regularly makes itself available to meet with the external and internal auditor without the presence of executive management.

Annual statement by the Chairman of the Audit and Risk Committee continued

The Committee has formally reported to the Board on how it has discharged its responsibilities.

The Committee has an annual work plan. This includes standing items that the Committee considers regularly in addition to any specific matters that require its attention and topical items on which it has chosen to focus.

Significant accounting issues considered during the year

Significant financial and reporting issues considered by the Committee in the year, in no particular order, were as follows:

Significant financial and reporting issue	How the issue has been addressed
Pension matters – valuation of obligations and disclosure	The Committee reviewed the methodology for determining key assumptions underpinning the valuation of liabilities of the Group's most significant pension schemes under International Accounting Standards. The Committee also reviewed in detail the various aspects of the continuing obligation to the Group's ongoing schemes, including the potential impact of tPR's investigation, and is satisfied that the disclosure relating to these provides an appropriate balance.
The carrying value of intangible assets	The Group has significant balance sheet values relating to intangible assets with indefinite lives (brands). Following input from executive management, the Committee has considered these carrying values and agreed impairment adjustments where necessary.
The carrying value of tangible assets	The Committee also reviewed evidence of impairment of tangible assets. This entails identifying loss making business activities and interrogating the related business plans. The Committee is satisfied the carrying value of tangible fixed assets is recoverable.
US environment provisions	The Committee has considered management's position on the accounting and disclosure implications surrounding the Lower Passaic River following the publication of the Focused Feasibility Study by the US Environmental Protection Agency during the year and concurs with the treatment adopted and related disclosures.
Other provisioning	The Committee considered the various judgments made by management in setting other provisions, the main areas being in respect of property and costs associated with tPR's investigation and is satisfied with the judgments made.
Taxation	The Group operates in numerous jurisdictions around the world and the sheer variety of regulation together with the quantum of cross-border transactions gives rise to inherent risks. The Committee has reviewed management's reports on tax risks and is satisfied with the judgments taken in preparing the financial statements.

Going Concern

The Committee reviewed a detailed paper presented by management setting out the assumptions underlying the going concern statement. The paper covered the Group's current financing, budgets and forecasts and assessments of principal risks and uncertainties. The Committee considered this report, the report of the external auditors and also in particular issues relating to tPR's investigations and concluded that there is a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence for the period of assessment of twelve months from the date of signing the accounts. The Committee reported accordingly to the Board.

External Audit

The Committee is also responsible for making recommendations on the engagement and independence of the Company's auditor, Deloitte LLP. The audit firm has a policy of partner rotation which complies with regulatory standards and the audit engagement partner changed with effect from the beginning of the 2014 financial year in line with this requirement. In addition, the auditor has a structure of peer reviews for its engagements which is aimed at ensuring from its perspective independence is maintained. Deloitte LLP was appointed the Company's auditor in 2003 following an evaluation process including the Company's predecessor audit firm. During the year a formal audit tendering policy was approved. It was agreed that, in the future, the audit would be put out to tender at least every ten years, although, in order not to adversely affect the business, the Group would take advantage of the FRC transitional arrangements proposed at the time of the publication of the 2012 Code. The Committee considers maintaining an independent relationship with the Company's auditor to be a critical part of assessing the effectiveness of the audit process. To this end the Committee regularly reviews the level of audit and non-audit fees paid to Deloitte LLP and also has in place a policy for ensuring significant assignments are not awarded to the auditor without first being subject to the scrutiny of the Committee. There are no contractual obligations that restrict the Company's choice of external audit firm. The policy requires the Committee to take action based on the following categories of non-audit services:

(i) Permitted services are those that fall outside the scope of an audit and these are managed with reference to the fee levels whereby services with fees exceeding certain amounts cannot be provided by the auditor without the prior approval of the Audit, and Risk Committee. During 2014, these permitted non-audit services were primarily comprised of tax strategy, compliance and reporting accountant's work in relation to The Pensions Regulator's (tPR) insufficiently resourced tests for the Coats Pension Plan;

(ii) Other advisory services which are deemed not to compromise the independence of the auditor but are reviewed on a case by case basis and require the prior approval of the Committee; and

(iii) Certain services, such as services remunerated on a success fee or participation in activities normally undertaken by management, are prohibited from being provided by the auditor because of the potential to compromise audit independence. The Committee confirms that no such services have been provided.

The Committee is satisfied that the policy on the supply of non-audit services by the Company's auditor, Deloitte LLP, could not lead to audit objectivity and independence being compromised.

The scope of the external audit is documented by the auditor in a formal proposal. The draft proposal is discussed with management before it is referred to the Committee. The Committee then reviews the draft and satisfies itself as to its adequacy by further discussions with management. The Committee suggests changes to the plan as appropriate before final approval.

The finance team and the external audit team review the effectiveness of the audit process at their closing meetings and consider how it might be improved. Their suggestions are then discussed with the Committee. The Committee then meet privately, without the external auditors present, to discuss the overall performance of the auditors and their independence and objectivity, and potential reappointment. Following the year under review, the Committee concluded that there were no concerns about the auditors' performance, and that they had maintained a suitable level of independence and objectivity and that it was therefore appropriate to recommend their reappointment for the 2015 financial year. The Committee have decided to enhance the review process by issuing a questionnaire to all those involved in the audit process, to seek further views on its effectiveness and suggestions for improvement.

Internal audit

The Code obliges Audit Committees to consider the need for internal audit and to make a recommendation to the Board. The Committee considers Group's operations to be sufficiently widespread and complex to require an internal audit function. The Head of Group Internal Audit agrees the department's programme of work with, and makes his reports directly to, the Committee. Internal audit reports contain a grading for each location visited and those not reaching an acceptable standard are scheduled for follow up visits as part of the programme for the following year. In addition to its rolling programme of reviews, the Company's Internal Audit team carries out special reviews as the need arises.

Whistleblowing procedure

The Company has a whistleblower system, enabling employees who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of assets or violations of any Company policy, to report these confidentially. The Committee is briefed on the instances of whistleblowing at each meeting by the Head of Group Internal Audit.

Internal controls

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. It has delegated to the Committee within its terms of reference the formality of monitoring compliance with this obligation and receives regular reports from the Committee.

The reporting process ensures that all significant business units within the Group report to the Board as a whole in relation to financial information, risk management and internal control. The systems operated by the Group are reviewed annually by management and the results of these reviews are reported to the Committee and to the Board.

The Committee and the Board are satisfied that these systems operate effectively in all material respects in relation to financial reporting risks. Furthermore, the Committee and the Board are satisfied that this process provides appropriate assurance regarding the Group's financial condition, operational results, risk management and internal compliance and control systems.

The Board considers that its system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risks. However, the Company has not received the declaration referred to in section 295A of the Australian Corporations Act (as recommended by Recommendation 7.3 of the ASX Governance Principles), since the Australian Corporations Act does not apply to the Company.

The principal risks and uncertainties facing the Company are addressed in the Strategic Report and in the table on page 30 of this report.

The Board has been notified of its responsibilities for identifying key business risks appropriate to its own business sector and establishing appropriate and relevant control and compliance procedures. The Board is also required to acknowledge it is responsible for the operation of its internal control systems. Notwithstanding this, as noted above, the Committee takes full responsibility for reviewing the internal control environment within the Company and receives regular reports from management, Internal Audit and the external auditor.

Governance

The Committee has undertaken a review of its own performance, focussing on the Code requirements for Audit Committees, via a new questionnaire. The results are positive. The related comments will be debated at a forthcoming Audit & Risk Committee meeting, when the Committee will agree whether there are actions which should be taken to further improve the way in which the Committee operates.

The Audit and Risk Committee Report was approved by the Board of Directors on 18 March 2015 and signed on its behalf by:

Ruth Anderson
Chairman
Audit and Risk Committee

18 March 2015

Directors' remuneration report
for the year ended 31 December 2014

I am pleased to present the Directors' remuneration report for the year ended 31 December 2014

David Gosnell
Chairman, Remuneration Committee

Annual statement by the Chairman of the Remuneration Committee

Dear Shareholder,
On behalf of the Remuneration Committee (the 'Committee') I am pleased to present the Directors' remuneration report for the year ended 31 December 2014.

This report includes the remuneration policy for Directors as approved by shareholders at the Annual General Meeting (AGM) on 22 May 2014 and discloses the amounts paid relating to the year ended 31 December 2014.

Throughout 2014 the Committee continued to prepare for the transition of the Company from an investment portfolio holding company with only Non-Executive Directors to a more traditional global LSE main market listed company with a Board consisting of Non-Executive and Executive Directors.

Prior to the AGM on 22 May 2014 the Company consulted with major shareholders on the details of the remuneration policy for both Executive and Non-Executive Directors. The policy was intended to be appropriate for the on-going Coats business and to adhere to the latest best practice guidelines for a FTSE company. I am pleased that the policy and the associated share-based incentive plans received overwhelming support from our shareholders at the 2014 AGM.

No Executive Directors were appointed to the Board during 2014. However, as announced on 26 February 2015, Paul Forman, Richard Howes and Rajiv Sharma joined the Board as Executive Directors in March 2015. The remuneration policy will therefore, as planned, apply to the new Executive Directors from 2015 onwards.

Mike Clasper joined the Board on 20 February 2014 and became Chairman on 16 April 2014. As disclosed in the 2013 Remuneration Report he elected not to receive an additional fee from the Company on appointment as a Non-Executive Director of the Company. He continued to receive a fee as Chairman of the Board of Coats plc (a subsidiary of the Company). From 1 June 2014 this Chairman's fee was paid by the Company. The Chairman's fee remained at the same level following his appointment as Coats plc Chairman and was not increased. Full details of the fees paid to all Non-Executive Directors are shown in this report.

The Committee will continue to monitor and evaluate the effectiveness of the Company's remuneration policy and ensure that it remains aligned with the interests of all the Company's stakeholders and provides an effective framework that enables the Company to attract, retain and incentivise the executives that the Company needs to meet its objectives.

I joined the Board on 2 March 2015 and have assumed responsibility as Remuneration Committee Chairman from Scott Malcolm following his decision to retire from the Board.

David Gosnell
Chairman, Remuneration Committee

Directors' Remuneration Policy
The Committee has responsibility for determining remuneration for the Company's Directors including the Chairman. The Committee takes into account the need to recruit and retain Directors who have the suitable skills and experience to perform in the interests of the Company and its shareholders, while paying no more than is necessary.

It will need to ensure that any incentive compensation for Executive Directors is suitably motivational and will encourage any such Executive Directors to meet stretching performance targets within an acceptable degree of risk.

The Committee's policy is that remuneration and benefit levels should be sufficiently competitive, having regard to remuneration practice in the industry and the countries in which the Group operates, to attract, incentivise, reward and retain Directors and senior executives.

Although the Company did not have any Executive Directors during 2014, the Remuneration Policy set out below applies to all Executive Directors who are appointed to the Board during the life of this policy.

Non-Executive Directors
The Chairman and Non-Executive Directors receive an annual fee (paid in monthly instalments). The fee for the Chairman is set by the Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman. In determining the appropriate level of fees the Committee and the Chairman consider advice from external sources and data on the fee levels in other similar companies. No individual is present when his or her own level of remuneration is discussed.

Non-Executive Directors' remuneration policy table

Element	Purpose and link to strategy	Operation
Fees		
	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering market competitive fee levels.	The Chairman is paid an all-inclusive fee for all Board responsibilities. The other Non-Executive Directors receive a basic Board fee, with supplementary fees payable for additional Board responsibilities (if appropriate). The fee levels are reviewed on a periodic basis, and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Additional payments may be made above the basic Board fee if duties significantly exceed expectations.
	Supplementary fees.	Supplementary fees may be payable to the Senior Independent Director, Chair of the Audit and Risk Committee and Chair of the Remuneration Committee.
No benefits or other remuneration will be provided to Non-Executive Directors.		

Legacy matters
Two of the Non-Executive Directors hold share options granted under the Guinness Peat Group plc 2002 Executive Share Option Scheme ("the Scheme"). Details of share options granted to existing Non-Executive Directors are set out on page 38 of the Annual Report.

These remain eligible to vest based on their original award terms. The share options were not granted subject to performance targets, although as the options were granted with an exercise price equal to the share price at the date of grant, the options are subject to an inherent share price target. All such options are fully vested and are capable of exercise in full.

The Scheme contains limited discretions including determining the treatment of leavers based on the rules of the relevant plan and whether adjustments are required in certain circumstances (eg rights issues, corporate restructuring events and special dividends). Any exercise of these discretions would, where relevant, be explained in the Annual Report on Remuneration.

Approach to recruitment remuneration
When recruiting Non-Executive Directors, the remuneration arrangements offered will be in line with those set out in the relevant table above.

In determining the level of fees for a new Non-Executive Director, the Committee will take into account all factors it determines to be relevant, including the skills and experience of the individual and the need to attract Non-Executive Directors of the appropriate calibre. The Committee will also take into account the level of fees offered by equivalent companies.

Terms of appointment
Fees
Under their respective Non-Executive Director appointment letters, all of the Non-Executive Directors other than Waldemar Szlezak are entitled to receive an annual fee. Waldemar Szlezak's appointment letter reflected his agreement not to receive any fee.

Sir Ron Brierley is eligible under his Non-Executive Director appointment letter to participate in the Scheme and staff bonus scheme. However, no further options can be granted under the Scheme and there is no current or future intention to award Sir Ron Brierley any bonus under the staff bonus scheme. Sir Ron Brierley has elected not to receive any fee as from 1 October 2013.

Mike Clasper elected not to receive any fee in respect of his duties from his appointment until 1 June 2014 (although he did continue to receive his fee for being the Chairman of Coats plc). With effect from 1 June 2014 this fee became payable by the Company.

Term and termination provisions
None of the appointment letters contains a set term of office.

None of the appointment letters (other than for Sir Ron Brierley) contains a notice period. Removal of the Non-Executive Directors would be governed by the Articles of Association of the Company.

Sir Ron Brierley's appointment is terminable by the Company on giving 18 months' written notice or by Sir Ron Brierley giving 12 months' written notice. In case of early termination by the Company other than for cause Sir Ron Brierley is entitled to receive a payment in respect of any annual bonus for the period to the date on which the notice period would expire, based either (at Sir Ron Brierley's election) on the average bonus paid in the preceding two financial years or on the bonus actually declared (or which would have been declared but for the cessation of office) for the relevant financial years. If Sir Ron Brierley is removed as a director within two years of a change in control of the Company, other than for cause, he is entitled to compensation equal to two times the average bonus received in the preceding two financial years. As referred to above, there is no current or future intention to award Sir Ron Brierley any bonus under the staff bonus scheme.

All Non-Executive Director letters of appointment are available for inspection at 1 The Square, Stockley Park, Uxbridge, UB11 1TD during normal hours of business, and will also be available at the Company's AGM on 21 May 2015 until the close of the meeting.

Policy on payment for loss of office
Save in respect of Sir Ron Brierley, there are no provisions in the Non-Executive Directors' letters of appointment that would give rise to any compensation payments for loss of office. Sir Ron Brierley's entitlements on termination of appointment are set out above.

Share options
In respect of the share options granted under the Scheme and held by certain Non-Executive Directors, on a cessation of office on grounds of gross misconduct or on-going breach of the terms of appointment following a written warning, options will lapse. In all other cases options would remain capable of exercise.

Directors' remuneration report continued
for the year ended 31 December 2014

Executive Directors

As noted above there were no Executive Directors at any stage during 2014. However, the policy that applies following the appointments of Paul Forman, Richard Howes and Rajiv Sharma as Executive Directors with effect from 2 March 2015 is shown below. A similar policy applies to other senior executives to the extent applicable.

Recruitment

In order to appoint an Executive Director, including a promotion to the Board of an executive from within the Group, the Committee will offer the recruit a remuneration package that it believes is appropriate, taking into account the skills and experience of the individual and the need to attract, retain and motivate individuals of the appropriate calibre. In determining the remuneration package that may be offered to a new Executive Director, the Committee may also take into account external and internal comparisons and relevant market factors, as well as any other factors which the Board determines to be relevant.

The remuneration package offered may include the components of remuneration described below in the Executive Directors' Remuneration Policy Table subject to the relevant limits as set out in the table.

For external appointments, the Committee may determine that there may be exceptional circumstances where it would be appropriate, in order to secure the right candidate, to compensate for lost awards incurred by an individual as a result of leaving their former employer. In the case of any long term incentive awards, save where such awards are close to vesting, any such award on appointment would normally be granted as a share based award, subject to such vesting and/or performance conditions as the Committee determined to be appropriate, either under a one-off arrangement or under the terms of the Long Term Incentive Plan (as described below). In determining the terms of any such awards, the Committee would take account of the vesting schedule and conditions attached to the forfeited awards, but also other factors that it determined to be relevant, including the need to suitably incentivise and retain the individual during the initial years of their appointment.

Executive Directors' remuneration policy table
Fixed remuneration

Salary	
Purpose and link to strategy	**Operation and opportunity**
To attract and retain the key talent that the Company needs to achieve its objectives.	Salaries for new Executive Directors will be set by the Board taking into account such factors as it determines to be necessary, as discussed above. Following recruitment, salaries will be reviewed annually with effect from 1 July. Salary reviews take account of factors including the market competitive level of pay in other companies, average salary increases applied elsewhere across the Group, the performance of the Company and the relative skills, performance and talent of the individual and any increase in the scope and/or responsibility of the individual's role. The Committee's approach will consider the median level of salary of similar positions in the FTSE250 (excluding financial services) for UK based roles to reflect the global scope and dimensions of the Group's operations and the sector in which it operates. External benchmark data is considered only as a reference point and the median figure will not be regarded as a target level of remuneration.

Pension	
Purpose and link to strategy	**Operation and opportunity**
To provide a market competitive level of retirement provision.	In the case of an external appointment, the Executive Director will either be entitled to participate in a defined contribution scheme, on a non-contributory basis, with an employer contribution of up to 20% of salary, or will be provided with a cash alternative in lieu of any pension benefits of up to 20% of salary. In the case of promotion of an executive of the Group to the role of Executive Director, the individual will be entitled to continue to participate in any pension arrangements (including any cash alternative arrangements) in which they participate at the time of promotion or to participate in a new arrangement on the same terms as may be offered to an external appointment (as described above).

Benefits	
Purpose and link to strategy	**Operation and opportunity**
To provide a market competitive level of benefits.	Benefit provision to Executive Directors will be determined by the Committee taking into account such factors as it determines to be necessary, with the aim of creating a competitive overall package. Benefits may include the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for-car-allowance. In addition, the Company may provide assistance in connection with the relocation of an Executive Director and, in the event of an international transfer, may provide tax equalisation arrangements. Executive Directors may also participate in any all-employee incentive plan operated by the Company from time to time, up to the same limit for participation as applies for other employees.

Variable remuneration

Annual bonus Cash bonus and deferral into shares under the rules of the Deferred Bonus Plan		
Purpose and link to strategy	**Operation and opportunity**	**Performance**
Annual bonus incentivises key individuals to achieve the objectives of the annual business plan. The metrics are designed to incentivise key individuals to achieve the objectives and targets that result in an increase in profit growth, strong cash-flow generation for the Group and individual key objectives that will contribute to the growth of the Group. The deferred element ensures that the final value of the annual incentive is linked to the longer term value of the Group.	Annual bonuses will be determined by reference to performance, in the normal course measured over one financial year. The maximum annual bonus that may be awarded will be 100% of salary. Any bonuses awarded will be subject to a mandatory 25% deferral into shares, to be held for a three year retention period, under the terms of the Deferred Bonus Plan. Deferral may operate so that shares will be held beneficially by the Executive Director during this period, in which case dividends will be payable on shares during such period. The deferral may alternatively be achieved by the grant of a share award or nil-cost option in lieu of the deferred portion of the bonus, and in which case an additional payment in cash or shares may be made to reflect dividends that may have been earned during the period from grant to vesting. The deferred element of the bonus may be subject to clawback (via the forfeiture of the deferred shares) in cases of personal misconduct or a restatement of results that mean the annual bonus awarded was greater than it should have been. The Deferred Bonus Plan was approved by shareholders at the 2014 AGM.	The performance measures, weightings and targets for the annual bonus will be set by the Committee on an annual basis. Performance measures will normally include tests of both business and individual performance. As an indication, the business objectives will include a profit-based measure and a measure that reflects cash generation. The weighting for each business objective will be between 20% and 50% and the weighting for the personal objectives will be up to a maximum of 20%. The Target or Budget level of performance will result in a payment of between 40% to 60% of the maximum award. The Committee will determine the Target/Budget level of remuneration on a basis that it feels is stretching and challenging. The Committee will be able to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. All annual bonus payments and awards are made at the discretion of the Committee and the terms of the awards may be amended by the Committee at any time provided that they remain within the terms of this policy.

Long Term Incentive Plan		
Purpose and link to strategy	**Operation and opportunity**	**Performance**
To incentivise key individuals to achieve key long term objectives. Principally the objectives are to achieve profit growth; sustained cash generation and superior performance in Total Shareholder Return relative to the FTSE250. Targets are established considering the sector in which the Group operates and the acceptable risk profile of the Group. To create alignment between executives and shareholders. To retain key individuals.	Awards will be made annually, conditional on the achievement of three year performance conditions. Award levels for a Chief Executive Officer or a Chief Financial Officer will be up to 150% of salary, with lower award levels for any other Executive Director. Awards may be made to other senior executives within the Group. Larger awards may be made in exceptional circumstances, but in no case to exceed 250% of salary. Awards will normally be made in the form of nil-cost options, exercisable following vesting until the tenth anniversary of grant, although awards may be made in other forms. An additional payment in cash or shares may be made to reflect dividends that may have been earned on the proportion of the award that vests during the period from grant to vesting. Awards will be subject to malus and claw-back provisions. The malus provisions give the Committee discretion to reduce the level of an award prior to vesting in the event of personal misconduct or if events happened that caused the Committee to determine the grant level was not appropriate. The Committee will have discretion to claw-back vested awards in the event that personal misconduct prior to vesting is discovered or if within three years of vesting there is a restatement of results that means awards vested at too high a level. The Long Term Incentive Plan was approved by shareholders at the 2014 AGM.	Performance will be assessed over a period of not less than three years. The performance measures will consist of a profitability measure, a cash generation measure and a total shareholder return measure. The weighting for each measure will be between 20% and 50%. The weighting for each specific award, the definition of the precise measure and the targets will be determined by the Committee considering the balance of strategic priorities for the Company for each three year performance period. In addition, the Committee may consider setting an underpin condition which must be satisfied prior to vesting of an award. The Committee will be able to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. Following grant of an award, the Committee will have power to amend performance measures and targets if events happen that mean they are no longer a fair test of performance, but not so as to make the assessment of performance materially less onerous.

Directors' remuneration report continued
for the year ended 31 December 2014

Legacy matters in respect of future Executive Directors

In the event that an executive of the Group is promoted to the Board, the Company retains power to honour any existing remuneration commitments. In particular, any long term awards, both cash and share awards, will continue to be capable of vesting on their existing terms. This would include awards previously granted under legacy Group incentive plans. This would also include any awards granted under the Long Term Incentive Plan or Deferred Bonus Plan prior to the individual being appointed as a director (although it would be intended that any such awards would in any event comply with the Policy as set out above).

Shareholding target

Executive Directors will be required to attain a shareholding, over a five year period, equivalent to 100% of salary.

Service contracts of future Executive Directors

The Committee's policy is for service contracts for Executive Directors to reflect the Committee's understanding of best corporate practice for listed companies. However, in the event that an executive of the Group is promoted to the Board, the Committee may include terms in any new service contract which are consistent with that individual's existing service contract and legacy arrangements.

Service contracts offered to non-UK based, external appointments will generally be in line with the provisions set out above, subject to any local law requirements.

Executive Directors will be able to accept Non-Executive appointments outside the Company (as long as this does not lead to a conflict of interest) with the consent of the Board, as such appointments can enhance their experience and add value to the Company. Any fees received (excluding positions where the Executive Director is appointed as the Company's representative) may be retained by the Executive Director.

Policy on payment for loss of office of future Executive Directors

In the case of an executive of the Group who is promoted to the Board, the terms on cessation of office or employment would be governed by the terms of the individual's existing employment agreement. In addition, the terms of any incentive awards made to the individual prior to being appointed as an Executive Director, and the terms of any pre-existing participation in a pension scheme, would govern the treatment of such arrangements.

Subject to this, the key elements of a service contract offered to a UK based Executive Director appointment will be:

Notice period	The notice period will be no more than 12 months (in the case of notice being given by the Company or the Executive Director). An Executive Director may be placed on garden leave during some or all of the notice period.
Payment in lieu of notice ("PILON")	Save in circumstances justifying summary termination, employment may be terminated without notice by paying a PILON comprising basic salary and contractual benefits. Subject to any legacy terms, the Company will have discretion to pay on a phased basis, which will normally be subject to mitigation.
Pension	The service contract may include entitlement to pension benefits, subject to the provisions and any limits set out in this Policy and the pension scheme rules or an annual allowance. The entitlement to pension benefits may continue during any notice period.
Benefits	The service contract may include entitlement to other benefits, subject to the provisions and limits set out in this Policy. The entitlement to benefits may continue during any notice period.
Incentive plans	The Executive Director will be eligible to be considered (at the Committee's discretion) to participate in the annual bonus and long term incentive arrangements operated from time to time, subject to the provisions and limits set out in this Policy. The terms of such arrangements would apply in the event of a cessation of office or employment, as set out below.

Notice periods, salary and contractual rights

The notice periods and contractual rights on termination that would be included in a service contract offered to an external recruit are set out above. In addition, the Executive Director would be entitled to accrued but untaken holiday.

In respect of any awards made to an Executive Director under any all-employee share plan, the same leaver conditions will apply as apply in respect of employees generally.

Discretions

In considering the exercise of its discretions under the incentive arrangements, as referred to above, or otherwise in connection with the cessation of office or employment of an Executive Director, the Committee will take into account all relevant circumstances, having regard to their duties as Directors.

In doing so, factors that the Committee may take into account shall include, but not be limited to, considering the best interests of the Company, whether the Executive Director has presided over an orderly handover, the contribution of the Executive Director to the success of the Company during their tenure, the need to ensure continuity, the need to compromise any claims that the Executive Director may have, whether the Executive Director received a PILON and whether, had the Executive Director served out their notice, a greater proportion of the outstanding award may have vested.

Other

The Company may enter into new contractual and financial arrangements with a departing Executive Director in connection with the cessation of office or employment, including (but not limited to) in respect of settlement of claims, confidentiality, restrictive covenants and/or consultancy arrangements, where the Committee determines it necessary or appropriate to do so. Appropriate disclosure of any such arrangement would be made.

Corporate Actions

On a corporate action affecting the Company, the rules of the Long Term Incentive Plan and Deferred Bonus Plan will apply. In summary, on a change of control awards will vest, subject to the performance conditions and, unless the Committee determines otherwise, time pro-rating. Deferred shares awarded under the terms of the Deferred Bonus Plan, which represent deferrals of previously earned bonus, will vest in full. Under the Long Term Incentive Plan and Deferred Bonus Plan, the Committee may determine that a demerger or similar event shall constitute a corporate action.

On a variation of share capital or similar event, the Committee may make such adjustment to awards under the Long Term Incentive Plan and the Deferred Bonus Plan as the Committee considers appropriate.

Incentive plans

	"Good leavers"	Other leavers
Annual bonus	The Company does not consider it appropriate to set defined "good leaver" and "bad leaver" conditions in respect of the annual bonus arrangements. Instead, where an Executive Director has ceased to hold office or employment with the Group, or is under notice, other than due to personal misconduct, the Committee will determine whether or not the individual will be eligible to receive any annual bonus. If the Committee determines that a departing Executive Director is eligible to receive a bonus, the amount of the bonus will be assessed by reference to the performance targets set for that financial year. The deferral requirement in respect of 25% of the amount of any bonus awarded will apply if the Committee so determines. The amount of any bonus will be pro-rated for time, provided that the Committee has discretion to waive time pro-rating.	Where the reason for cessation of office or employment is personal misconduct no bonus will be payable. In other cases, unless the Committee determines that the departing Executive Director is eligible to receive a bonus, no bonus will be payable.
Long Term Incentive Plan	A departing Executive Director will be a "good leaver" on ceasing employment due to retirement, injury, disability, ill-health, death, redundancy or the sale of a business or subsidiary out of the Group. Awards held by "good leavers" will normally vest on the normal vesting date (ie the third anniversary of grant) to the extent that the performance conditions are met, and be pro-rated for time. The Committee will have discretion to accelerate vesting to the date of cessation. The Committee also will have discretion to waive the time pro-rating requirement.	Unvested awards will lapse in full where the cessation of office or employment is on grounds of personal misconduct. In other cases, the Committee will have discretion to determine that unvested awards will vest (in which case the terms applicable to "good leavers" will apply). Unless this discretion is exercised, unvested awards lapse in full.
Deferred Bonus Plan	Unvested deferred shares (which represent deferrals of earned bonus) will vest in full on the normal vesting date (ie the third anniversary of grant), provided that the Committee will have discretion to accelerate vesting to the date of cessation.	Where the reason for cessation of office or employment is personal misconduct unvested deferred shares will lapse in full.

Development of this policy

Statement of consideration of employment conditions elsewhere in the Company

The Committee does not consult with employees when determining remuneration policy.

Statement of consideration of shareholder views

The Committee remains committed to shareholder dialogue and takes an active interest in voting outcomes. The Committee sought the views of our major shareholders before submitting this Policy for shareholder approval at the 2014 AGM.

The Committee may, without seeking shareholder approval, make minor changes to this Policy that do not have a material advantage to Directors.

Annual Report on Remuneration

The information below has been audited where required by the regulations.

Single total figure of remuneration for each Non-Executive Director

We have set out the amount earned by the Non-Executive Directors in the table below (audited).

	Fees (£)*		Total (£)*	
	2014	2013	2014	2013
R J Campbell	80,000	225,833	80,000	225,833
M Clasper	217,916	–	217,916	–
M N Allen	104,166	198,801	104,166	198,801
R Anderson	62,500	–	62,500	–
Sir Ron Brierley	–	50,468	–	50,468
S L Malcolm	65,833	102,142	65,833	102,142
B A Nixon	60,000	124,089	60,000	124,089
W R Szlezak	–	–	–	–

* No other benefits, bonus, long term incentives, pensions or other remuneration were earned during the year.

Directors' remuneration report continued
for the year ended 31 December 2014

Included within Directors' fees for 2014 are £32,500 for M Allen (2013: £133,333), £21,666 for R Anderson and £86,666 for M Clasper in respect of services provided to Coats plc during the period of their appointment to the Board of Coats Group plc. From 1 June 2014 to 28 February 2015 M Allen, R Anderson and M Clasper were also Non-Executive Directors of Coats plc. Coats plc paid an additional fee of £20,000 per annum in view of the additional time commitment required for being a member of two separate Boards at the same time. All fees from Coats plc ceased with effect from 1 March 2015. The single figure of total remuneration for each Non-Executive Director shown in the table indicates all fees from the Company and Coats plc.

Total pension entitlements
No Director participates in any pension arrangements funded by the Company.

Scheme interests awarded during the financial year
No awards of shares were made to any Director during the financial year.

Payments to past Directors
There have been no payments made to past Directors during the financial year.

Payments for loss of office
There have been no payments made to past Directors for loss of office during the year.

Statement of Directors' shareholding and share interests
The interests of the Directors who held office during the year, and their connected persons (if any), in the shares, options, and listed securities of Coats Group plc and its subsidiaries as at 31 December 2014, are set out below.

B A Nixon sold 3,400,000 shares in the period since 31 December 2014.

No other Directors have entered into any transactions since the year end.

Interests in shares (excluding share options)

Ordinary 5p shares	31 December 2014
R J Campbell	**525,043**
M Clasper CBE	**1,490,000**
M N Allen	**200,000**
R Anderson	**100,000**
Sir Ron Brierley	**16,882,765**
S L Malcolm	**570,000**
B A Nixon	**17,815,623**
W R Szlezak	**–**

Upon their appointment to the Board on 2 March 2015 the following Directors held shares at the time of their appointment; D Gosnell: 386,475 shares; P Forman: 310,000 shares; R Howes: 200,000 shares; A Rosling: nil shares; R Sharma: nil shares.

Options under the Group's share option scheme
The outstanding scheme interests are in the form of share options, as set out below, which are currently capable of exercise and are not subject to performance conditions, although as the options were granted with an exercise price equal to the share price at the date of grant the options are subject to an inherent share price target. Options were awarded under the terms of the Guinness Peat Group plc 2002 Executive Share Option Scheme.

Ordinary 5p shares	31 December 2013 Number	Lapsed during year	31 December 2014 Number	Effective exercise price (pence per share)	Exercise period
Sir Ron Brierley					
Ordinary	767,245	(767,245)	–	40.0912	23.04.07 to 23.04.14
Ordinary	697,495	–	697,495	48.2294	09.03.08 to 09.03.15
Ordinary	396,302	–	396,302	51.0967	24.10.08 to 24.10.15
Ordinary	237,779	–	237,779	56.6480	15.03.09 to 15.03.16
Ordinary	360,278	–	360,278	56.5534	09.03.10 to 09.03.17
Ordinary	196,515	–	196,515	49.9961	10.04.11 to 10.04.18
B A Nixon					
Ordinary	2,291,740	(2,291,740)	–	40.0912	23.04.07 to 23.04.14
Ordinary	2,179,682	–	2,179,682	48.2294	09.03.08 to 09.03.15
Ordinary	1,981,528	–	1,987,528	51.0967	24.10.08 to 24.10.15
Ordinary	951,131	–	951,131	56.6480	15.03.09 to 15.03.16
Ordinary	1,441,115	–	1,441,115	56.5534	09.03.10 to 09.03.17
Ordinary	1,310,104	–	1,310,104	49.9961	10.04.11 to 10.04.18

No options were exercised by Directors during the year. The table above reflects options that lapsed.

No options have been exercised since the year end. Options over 2,877,177 shares have lapsed since the year end in respect of Sir Ron Brierley (697,495 options) and B A Nixon (2,179,682 options).

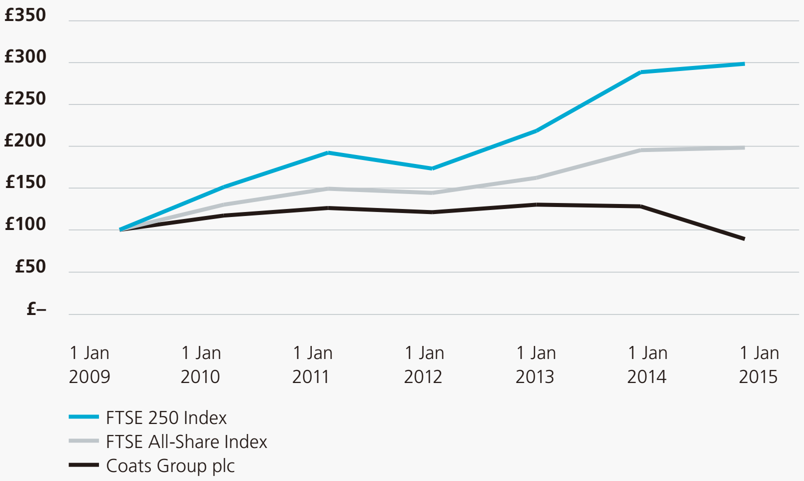
From the year end to the date of approval of this Annual Report, no further options have been granted to Sir Ron Brierley or B A Nixon.

The middle market price of GPG's shares at 31 December 2014 was 21.00p and the range during the year was 19.0p to 36.63p.

Performance graph (unaudited)
The graph shows the difference between investing £100 in the Company and the constituents of the FTSE All Share index and FTSE250 from 1 January 2009 to 31 December 2014. It is assumed dividends are reinvested over that period. The Board feels the FTSE All Share index and the FTSE250 each provide an appropriate comparator given the Company's market capitalisation and its presence on the London Stock Exchange.

The Company did not have any Executive Director who performed the role as Chief Executive during the five years ending 31 December 2014 and so no table of historic CEO data has been included.

Total shareholder return 5 year comparison of Coats Group plc shares against FTSE All–Share Equity Investment Instruments Index and FTSE250



Comparison to CEO pay
The Company did not have any Executive Directors during the year ended 31 December 2014, and so it is not possible to provide a comparison between the changes in remuneration of the Chief Executive Officer and the remuneration of employees during the year.

Relative importance of spend on pay
The table below shows the total pay for all of the Company's employees compared to other key financial indicators.

	Year to 31 December 2014	Year to 31 December 2013	% change
Employee costs (£'m)	259	274	(5.5)%
Distributions to shareholders[1] (£'m)	–	45	(100)%
Average number of employees	20,579	20,969	(1.9)%
Revenues from continuing operations (£'m)	1,023	1,089	(6.1)%
Profit before tax from continuing operations (£'m)	43	14	207.1%

1 By way of dividends and share buybacks

Additional information on number of employees, total revenues and profit has been provided for context.

Statement of implementation of Remuneration Policy for 2015
The current Chairman's fee is £225,000 per annum which is the same level that applied upon his appointment as Chairman of Coats plc, a subsidiary of Coats Group plc. Basic fees were reviewed and maintained at the same level that applied from 1 October 2013; and the current basic fee for each Non-Executive Director is £60,000 per annum (although Sir Ron Brierley and Waldemar Szlezak have agreed not to receive any fee). The Chair of the Pensions Committee receives an additional fee of £20,000 because of the significant time commitment required. An additional fee of £10,000 per annum is paid to the Chairman of the Remuneration Committee and the Audit and Risk Committee.

Following the appointment of three Executive Directors on 2 March 2015 the Committee has determined that the following performance measures and weightings will apply in respect of the annual bonus arrangements and awards under the Long Term Incentive Plan (provided that the Committee retains absolute discretion to determine the level of grant of such awards up to the permitted maximum). These performance measures and weightings are generally in line with the measures and weightings that are set for other senior employees within the Group. Salaries, pensions and benefits will be provided to Executive Directors in accordance with the policy table shown above.

Annual bonus		Long Term Incentive Plan	
Measure	Weighting	Measure	Weighting
Attributable Profit	25%	Profit After Tax/Attributable Profit	40%
EBIT	25%		
Net Working Capital	30%	Free Cash Flow (before dividends)	40%
Individual objectives	20%	Total Shareholder Return	20%

Directors' remuneration report continued
for the year ended 31 December 2014

Performance targets
Annual bonus
The Committee has not disclosed prospective targets for the 2015 annual bonus in this report for reasons of commercial sensitivity although full details will be provided in the Directors' remuneration report for 2015.

Underpin: in order for any annual bonus to be payable, the underpin condition based on Attributable Profit must be met. The underpin condition would require Attributable Profit for the year ending 31 December 2015 to at least equal Attributable Profit for the year ended 31 December 2014 (subject to adjustment for fluctuations in exchange rates and any disposals or acquisitions).

Long Term Incentive Plan
The measures for the Long Term Incentive Plan to be awarded in 2015 are shown in the following table:

Target ranges for 2015

Measure	Threshold	Mid	Maximum
Attributable profit growth (CAGR over 3 years)	5%	15%	20%
Cumulative free cash flow ($m)	210	231	250
Total Shareholder Return vs FTSE250 (excluding investment trusts)	Median	Percentile 62.5	Upper Quartile
Vesting % of award allocated to each measure	25%	62.50%	100%

Consideration by the Directors of matters relating to directors' remuneration
The members of the Committee were: S L Malcolm (Chairman), R Anderson, R J Campbell, M Allen, Sir Ron Brierley, M Clasper, B A Nixon and W R Szlezak. The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report. From 2 March 2015 the Committee members are: D Gosnell (Chairman), M Allen and A Rosling.

The Committee also received assistance from C Healy (Legal Director and Company Secretary for the Company) until 30 June 2014 and from 15 September 2014 from S Morgan (who also acted as Secretary to the Committee), A Speak (HR Director) and B Fahey (Reward Director) from Coats plc. No Directors are involved in deciding their own remuneration.

The Company received advice from Herbert Smith Freehills LLP in relation to legal matters relating to the Group's incentive plans and considered the recommendations from the Remuneration Committee of Coats plc during the year ended 31 December 2014.

Statement of voting at general meeting
At the Annual General Meeting of the Company on 22 May 2014 the results of the vote regarding Resolution 2 (to approve the Remuneration Report) were:

VOTES FOR		VOTES AGAINST			
Number	%	Number	%	Votes Total	Votes Withheld
781,305,413	98.83	9,284,992	1.17	790,590,405	1,988,374

The results of the vote regarding Resolution 3 (to approve the Remuneration Policy) were:

VOTES FOR		VOTES AGAINST			
Number	%	Number	%	Votes Total	Votes Withheld
749,188,151	94.78	41,268,185	5.22	790,456,336	2,122,443

The Remuneration Report was approved by the Board of Directors on 18 March 2015 and signed on its behalf by:

David Gosnell
Chairman
Remuneration Committee

18 March 2015

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Responsibility statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors' responsibilities statement was approved by order of the Board.

Mike Clasper
Chairman
Coats Group plc

18 March 2015

Independent auditor's report to the Members of Coats Group plc

Opinion on financial statements of Coats Group plc	In our opinion: • the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended; • the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; • the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 36. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
Separate opinion in relation to IFRSs as issued by the IASB	As explained in note 1 to the group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the group financial statements comply with IFRSs as issued by the IASB.
Going concern	As required by the Listing Rules we have reviewed the directors' statement contained within note 1 on page 53 that the group is a going concern. We confirm that: • we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Going Concern and the impact of the Pensions Regulator's investigations Significant judgement is required by management in assessing the going concern considerations for the group. This includes assessing the impact of the Pensions Regulator's investigations into the funding gap of the existing UK defined benefit schemes. The Director's evaluation of the business as a going concern is given on page 53 and further details of the Pension Regulator's investigation in note 29 of the financial statements.	We considered the appropriateness of management's assumptions and estimates used in their cash flow model, challenging those assumptions and considering supporting forecasts, estimates and sensitivities by examining past performance against management's budgets and external industry data. We considered the appropriateness of management's conclusions over the impact of the Pensions Regulator's investigations through reviewing board minutes, correspondence with the pension trustees and meeting with the legal advisers.

Material assumptions underlying retirement benefit obligations The net defined benefit liability of Coats Group plc is £375 million (2013: £178 million) which represents an area of significant judgement for the financial statements, particularly in relation to the assumptions adopted such as discount, inflation and mortality rates. The key assumptions underlying the valuation of the pensions schemes are presented in note 9 of the financial statements. This is also identified as a critical judgment in note 1 of the financial statements.	We worked with our own actuarial experts to test the assumptions such as discount, inflation and mortality rates underlying management's calculation of the group defined benefit schemes. We have compared these assumptions to industry benchmarks and prior year rates.
Provisions and litigation Provisions require significant management judgment including assessing the likely outcome of litigation, the most significant of which is related to the US Environmental Protection Agency's claim in respect of the Lower Passaic River Study Area. Management have set out their considerations in respect of this litigation in note 29 of the financial statements, concluding that it is not possible to reliably estimate the future remediation costs. This is also identified as a critical judgment in note 1 of the financial statements.	We challenged management's assumptions including a review of relevant correspondence with management's experts used in determining provisions for litigation, environmental and other provisions both in terms of appropriateness of recognition and in terms of valuation. We carried out testing on movements in the provisions. We considered the legal advice management had obtained in relation to litigation and held calls with key legal advisers. We have reviewed the disclosures in the financial statements and considered the presentation of the Lower Passaic River Study Area litigation as a contingent liability.
Carrying value of intangible assets and tangible assets The group holds £156 million of brands (2013: £147 million) and £8 million of other intangible assets (2013: £7 million) described in note 13 to the financial statements. Management is required to assess whether the carrying value has been impaired where assets have an indefinite life or where there are indications of impairment. The impairment test requires significant management judgement and is based on assumptions about future profitability, cost of equity and cost of debt. This is also identified as a critical judgment in note 1 of the financial statements.	We tested management's assumptions used in the impairment model for tangible and intangible assets including cash flow projections, discount rate and sensitivities used. We considered the historical accuracy of management's forecasts, challenged the assumptions used in management's model by comparing to industry data sources, reviewing supporting evidence and applying further sensitivities.
Taxation Due to the nature and complexity of tax legislation in the multiple jurisdictions in which the group operates, management are required to exercise a degree of judgement as to the application of corporation tax laws and the recoverability of deferred tax assets of £10 million (2013: £8 million). The tax reconciliation is included in note 8 and the deferred tax in notes 17 and 24 of the financial statements.	We worked with our tax specialists in key jurisdictions to evaluate the appropriateness of judgements and assumptions made by management with respect to their assessment and valuation of tax risks, including a review of applicable third party evidence and correspondence with tax authorities. We evaluated management's forecasts and assessed management's conclusions on the sufficiency and availability of future profits to support the recognition of deferred tax assets.

Last year our report included a risk that concerned the appropriate accounting for investment disposals. The group's programme of disposal of investments was completed in 2013 and as such this is not considered a significant risk of material misstatement in the current year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 30.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Independent auditor's report to the Members of Coats Group plc continued

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the group to be £6.3 million (2013: £6.4 million), which is below approximately 1% (2013: 1%) of adjusted net assets, and below 3% (2013: 2%) of net assets. Adjusted net assets is calculated as net assets of £241.3 million adjusted for deemed pension liabilities of £375.0 million. Due to Coats Group plc being an investment company during 2014 we considered the adjusted net asset basis as the most relevant to the members. We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.35 million (2013: £0.35 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our group audit was scoped by obtaining an understanding of the group and assessing the risks of material misstatement at the group level. Based on that assessment, we scoped our work primarily under two components: Coats Group plc (referred to as the parent group entities) and Coats plc. Both components were subject to a mixture of full scope audit and audit of specified balances. Due to the geographically widespread nature of the group there are a number of component auditors involved. Our involvement in these component audits is as follows: we work with component auditors during the audit planning stage to ensure the global audit meets our requirements, we follow a programme of planned site visits to meet with components and review local procedures and we perform the audit of some significant components (the US companies) within the group audit team. Our involvement in the component audit is designed to ensure that the Senior Statutory Auditor has sufficient oversight to assess the suitability for inclusion in the group results. 75% (2013: 70%) of the group's net assets, 81% (2013: 78%) of the group's profit before tax and 85% (2013: 77%) of the group's turnover are subject to full scope audit or audit of specified account balances. The components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the components identified above was executed at levels of materiality which were lower than group materiality. At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and • the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception *Adequacy of explanations received and accounting records*	Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.
Respective responsibilities of directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Georgina Robb, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

18 March 2015

Consolidated income statement

Year ended 31 December	Notes	Coats	Other	2014 IFRS £m Total	Coats	Other	2013 IFRS £m Total
Continuing operations							
Revenue	2,3	**1,023**	**–**	**1,023**	1,089	–	1,089
Cost of sales		**(648)**	**–**	**(648)**	(709)	–	(709)
Gross profit		**375**	**–**	**375**	380	–	380
Interest receivable – Parent Group		**–**	**6**	**6**	–	4	4
Distribution costs		**(172)**	**–**	**(172)**	(183)	–	(183)
Administrative expenses		**(138)**	**(7)**	**(145)**	(118)	(43)	(161)
Other operating income		**–**	**–**	**–**	–	1	1
Operating profit	2,4	**65**	**(1)**	**64**	79	(38)	41
Interest and other income – Coats		**2**	**–**	**2**	3	–	3
Share of profit of joint ventures	15a)	**1**	**–**	**1**	1	–	1
Finance costs (net)	2,6	**(21)**	**(3)**	**(24)**	(27)	(4)	(31)
Profit before taxation from continuing operations	5	**47**	**(4)**	**43**	56	(42)	14
Tax on profit from continuing operations	8	**(28)**	**–**	**(28)**	(32)	–	(32)
Profit/(loss) for the year from continuing operations		**19**	**(4)**	**15**	24	(42)	(18)
Discontinued operations							
Profit from discontinued operations	2,32	**–**	**–**	**–**	–	46	46
PROFIT FOR THE YEAR		**19**	**(4)**	**15**	24	4	28
Attributable to:							
EQUITY HOLDERS OF THE PARENT		**13**	**(4)**	**9**	19	4	23
Non-controlling interests		**6**	**–**	**6**	5	–	5
		19	**(4)**	**15**	24	4	28

	Notes	2014	2013
EARNINGS PER ORDINARY SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS:			
Basic & diluted	10	0.64p	1.62p
EARNINGS/(LOSS) PER ORDINARY SHARE FROM CONTINUING OPERATIONS:			
Basic & diluted	10	0.66p	(1.58)p

Notes on pages 53 to 100 form part of these financial statements

Consolidated statement of comprehensive income

Year ended 31 December	2014 IFRS £m	2013 IFRS £m
PROFIT FOR THE YEAR	**15**	28
Items that will not be reclassified subsequently to profit or loss:		
Net actuarial (losses)/gains on retirement benefit schemes (note 9)	**(201)**	106
Tax on items that will not be reclassified	**(1)**	1
	(202)	107
Items that may be reclassified subsequently to profit or loss:		
Losses on revaluation of fixed asset investments	**–**	(5)
Exchange losses on translation of foreign operations	**(11)**	(36)
(Losses)/gains on cash flow hedges	**(1)**	1
Tax on items that may be reclassified	**–**	1
Transferred to profit or loss on sale or impairment of fixed asset investments	**–**	(11)
Transferred to profit or loss on sale of businesses	**–**	(30)
Transferred to profit or loss on cash flow hedges	**2**	3
	(10)	(77)
NET COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR	**(197)**	58
Attributable to:		
EQUITY HOLDERS OF THE PARENT	**(204)**	53
Non-controlling interests	**7**	5
	(197)	58

Notes on pages 53 to 100 form part of these financial statements

Consolidated statement of financial position

31 December	Notes	2014 IFRS £m	2013 IFRS £m
NON-CURRENT ASSETS			
Intangible assets	13	165	155
Property, plant and equipment	14	191	206
Investments in joint ventures	15	9	8
Fixed asset investments	15	2	2
Deferred tax assets	17	10	8
Pension surpluses	9	33	27
Trade and other receivables	19	10	12
		420	418
CURRENT ASSETS			
Inventories	18	166	170
Trade and other receivables	19	196	207
Derivative financial instruments	20	3	3
Cash and cash equivalents		474	458
		839	838
Assets held for sale	32	1	1
TOTAL ASSETS		1,260	1,257
CURRENT LIABILITIES			
Trade and other payables	21	236	228
Current income tax liabilities		7	11
Borrowings	23	73	50
Derivative financial instruments	22	6	3
Provisions	25	48	48
		370	340
NET CURRENT ASSETS		469	498
NON-CURRENT LIABILITIES			
Trade and other payables	21	10	11
Deferred tax liabilities	24	25	22
Borrowings	23	195	224
Derivative financial instruments	22	–	1
Retirement benefit obligations:			
Funded schemes	9	312	118
Unfunded schemes	9	77	68
Provisions	25	14	16
		633	460
TOTAL LIABILITIES		1,003	800
NET ASSETS		257	457

Notes on pages 53 to 100 form part of these financial statements

Consolidated statement of financial position continued

31 December	Notes	2014 IFRS £m	2013 IFRS £m
EQUITY			
Share capital	27	**70**	70
Share premium account	28	**1**	1
Translation reserve	28	**10**	22
Capital reduction reserve	28	**48**	48
Other reserves	28	**126**	124
Retained (loss)/earnings	28	**(14)**	179
EQUITY SHAREHOLDERS' FUNDS		**241**	444
Non-controlling interests	28	**16**	13
TOTAL EQUITY		**257**	457
Net asset backing per share		**17.2p**	31.5p

Paul Forman, Group Chief Executive

Richard Howes, Chief Financial Officer

Approved by the Board on 18 March 2015

Company Registration No.103548

Notes on pages 53 to 100 form part of these financial statements

Company balance sheet

31 December	Notes	2014 UK GAAP £m	2013 UK GAAP £m
FIXED ASSETS			
Investments	15	371	371
TOTAL FIXED ASSETS		371	371
CURRENT ASSETS			
Loans to subsidiary undertakings		3	3
TOTAL CURRENT ASSETS		3	3
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Loans from subsidiary undertakings		179	175
TOTAL CURRENT LIABILITIES		179	175
NET CURRENT LIABILITIES		(176)	(172)
TOTAL ASSETS LESS CURRENT LIABILITIES		195	199
PROVISIONS FOR LIABILITIES	25	13	10
NET ASSETS		182	189
CAPITAL AND RESERVES			
Share capital	27	70	70
Share premium account	28	1	1
Capital redemption reserve	28	11	11
Capital reduction reserve	28	48	48
Share options reserve	28	8	8
Other reserves	28	1	1
Profit and loss account	28	43	50
EQUITY SHAREHOLDERS' FUNDS		182	189

Paul Forman, Group Chief Executive

Richard Howes, Chief Financial Officer

Approved by the Board on 18 March 2015

Company Registration No.103548

Notes on pages 53 to 100 form part of these financial statements

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Translation reserve £m	Unrealised gains reserve £m	Capital reduction reserve £m	Other reserves £m	Retained (loss)/ earnings £m	Total £m	Non-controlling interests £m
Balance as at 1 January 2013	78	–	89	14	93	112	48	434	24
Net comprehensive (expense)/income for the year	–	–	(67)	(14)	–	4	130	53	5
Share buybacks	(8)	–	–	–	(45)	8	–	(45)	–
Dividends	–	–	–	–	–	–	–	–	(5)
Share issues	–	1	–	–	–	–	–	1	–
Disposal of subsidiaries	–	–	–	–	–	–	1	1	(11)
BALANCE AS AT 31 DECEMBER 2013	70	1	22	–	48	124	179	444	13
Net comprehensive (expense)/income for the year	**–**	**–**	**(12)**	**–**	**–**	**1**	**(193)**	**(204)**	**7**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**
Share based payments	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**1**	**–**
BALANCE AS AT 31 DECEMBER 2014	**70**	**1**	**10**	**–**	**48**	**126**	**(14)**	**241**	**16**

Notes on pages 53 to 100 form part of these financial statements

Consolidated statement of cash flows

Year ended 31 December	Notes	2014 IFRS £m	2013 IFRS £m
Cash inflow from operating activities			
Net cash inflow from operating activities**	31a)	**101**	149
Interest paid		**(13)**	(18)
Taxation paid	31b)	**(34)**	(35)
Net cash generated by operating activities		**54**	96
Cash (outflow)/inflow from investing activities			
Investment income	31c)	**1**	3
Net capital expenditure and financial investment	31d)	**(23)**	(6)
Acquisitions and disposals**	31e)	**–**	129
Net cash (absorbed in)/generated by investing activities		**(22)**	126
Cash outflow from financing activities			
Buyback of Ordinary Shares	31f)	**–**	(45)
Dividends paid to non-controlling interests		**(4)**	(5)
Net decrease in borrowings	31g)	**(27)**	(28)
Net cash absorbed in financing activities		**(31)**	(78)
Increase in cash and cash equivalents		**1**	144
Cash and cash equivalents at beginning of the year		**447**	311
Exchange gains/(losses) on cash and cash equivalents		**8**	(8)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**456**	447
Cash and cash equivalents per the Consolidated Statement of Financial Position		**474**	458
Bank overdrafts	23	**(18)**	(11)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**456**	447
Summary of net cash			
– Parent Group* cash		**375**	383
– Other group cash		**99**	75
– Other group debt	23	**(268)**	(274)
Total group net cash		**206**	184

* Parent Group comprises the Group's central investment activities.

** Acquisitions and disposals include the proceeds of sale of Parent Group operating subsidiary and associated undertakings and joint ventures. Proceeds of sale of other Parent Group fixed and current asset investments are included within cash inflow from operating activities.

Notes on pages 53 to 100 form part of these financial statements

Notes to financial statements

1. Principal accounting policies

The following are the principal accounting policies adopted in preparing the financial statements.

GROUP

Critical accounting policies

The principal accounting policies adopted by the Group are set out in this note to the consolidated financial statements. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible over time the actual results could differ from the estimates based on the assumptions and judgements used by the Group. Due to the size of the amounts involved, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the period and/or the carrying values of assets and liabilities in the consolidated financial statements:

> Pension and other employee benefit obligations

The retirement benefit obligations recognised in the statement of financial position in respect of defined employee benefits are the present values of the defined benefit obligations at the year end less the fair value of any associated assets. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and benefits in payment inflation rates. Changes in any or all of these assumptions could materially change the employee benefit obligations recognised in the statement of financial position.

A sensitivity analysis relating to the Group's major defined benefit pension arrangements is included in note 9.

> Carrying value of intangible assets and tangible assets

The carrying value of intangible assets and tangible assets is dependent on the calculation of discounted cash flows arising from the cash-generating units to which those assets relate. Changes in either the discount rates applied or the estimated cash flows could materially change the carrying values of these assets.

> Provisions

In determining the level of provisions held at year end the Board takes advice from external experts as appropriate. The nature of the estimates adopted is such that the final liability that crystallises may differ from these estimates.

A) Accounting convention and format

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards and Standing Interpretations Committee interpretations approved by the predecessor International Accounting Standards Committee that have been subsequently authorised by the IASB and remain in effect.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

B) Basis of preparation

Subsidiaries

The principal subsidiaries are listed in note 16. Subsidiaries are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate, or the subsidiary meets the criteria to be classified as held for sale. The effective date is when control passes to or from the Group. Control is achieved when the Group has the power over the investee and is exposed, or has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control. Where necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by the Group.

Where subsidiaries are not 100% owned by the Group, the share attributable to outside shareholders is reflected in non-controlling interests. Non-controlling interests are identified separately from the Group's equity, and may initially be measured at either fair value or at the non-controlling interests' share of the fair value of the subsidiary's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Changes in the Group's interests in subsidiaries, that do not result in a loss of control, are accounted for as equity transactions. Where control is lost, a gain or loss on disposal is recognised through the consolidated income statement, calculated as the difference between the fair value of consideration received (plus the fair value of any retained interest) and the Group's previous share of the former subsidiary's net assets. Amounts previously recognised in other comprehensive income in relation to that subsidiary are reclassified and recognised through the income statement as part of the gain or loss on disposal.

These financial statements incorporate the consolidated results of Coats Group Limited ("CGL") as adjusted to account for the Coats capital incentive plan ("CIP"), on a basis consistent with that required to be adopted by GPG.

Joint Ventures

Joint ventures are entities in which the Group has joint control, shared with a party outside the Group. The Group reports its interests in joint ventures using the equity method.

Going concern

Giving due consideration to the nature of the Group's business and underlying investments, taking account of the following matters: the ability of the Group to realise its liquid investments and to manage the timing of such liquidations; the Group's foreign currency exposures; the potential requirement to provide financial support to the Group's UK pension schemes; the appropriate capital structure to be adopted by the Group in the future; and the factors which will determine further returns of surplus cash to shareholders; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis. Further detail is contained in the corporate governance section on page 28.

Notes to financial statements continued

C) Foreign currencies

Foreign currency translation

The Company's functional and the Group's presentation currency is the Pound Sterling. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the period end. All currency differences on monetary items are taken to the consolidated income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Group companies

Assets and liabilities of subsidiaries whose presentation currency is not the Pound Sterling are translated into the Group's presentation currency at the rates of exchange ruling at the period end and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of such an entity, the deferred cumulative amount recognised in equity since 1 January 2004 relating to that particular operation is recycled through the consolidated income statement. Translation differences that arose before the date of transition to IFRS in respect of all such entities are not presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of such operations are regarded as assets and liabilities of the particular operation, expressed in the currency of the operation and recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

D) Segment reporting

Operating segments are the components of the Group about which separate financial information is available that is evaluated regularly by the Company's directors in deciding how to allocate resources and in assessing performance. The information presented within the operating segment analysis is reported on the same basis as that used internally by the Company's directors in evaluating operating segment performance.

E) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

Leased assets

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	–	50 years to 100 years
Leasehold buildings	–	10 years to 50 years or over the term of the lease if shorter
Plant and equipment	–	3 years to 20 years
Vehicles and office equipment	–	2 years to 10 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end.

F) Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. CGUs represent the Group's investment in each of its business segments.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded previously under UK GAAP.

Negative goodwill is recognised immediately in the income statement.

Brands

Brands with finite useful lives are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their useful lives of up to 10 years. Brands with indefinite useful lives are carried at cost less any accumulated impairment charges.

Other intangibles

Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

Intellectual property, comprising trademarks, designs, patents and product development which have a finite useful life, are carried at cost less accumulated amortisation and impairment charges. Amortisation is calculated using the straight-line method to allocate the cost over the assets' useful lives, which vary from 5 to 10 years.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

Research and Development

All research costs are expensed as incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

> An asset is created that can be separately identified;

> It is probable that the asset created will generate future economic benefits; and

> The development costs can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

G) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant financial instrument.

Financial assets

(i) Investments

Investments are recognised and derecognised on a trade date basis and are initially measured at fair value, plus directly attributable transaction costs for fixed asset investments. Investments are classified as either current assets (held-for-trading) or fixed assets (available-for-sale), dependent upon the Group's intention at the time of purchase, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value of current asset investments are included in the income statement for the period. For fixed asset investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is deemed to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment charges recognised for equity investments classified as fixed asset investments are not subsequently reversed through the income statement until such time as the equity investment is disposed of.

Net gains and losses recognised in profit or loss on disposal of investments do not incorporate dividends or interest receivable on those assets.

Listed investments held as part of the Group's investment portfolio are stated at market value.

Unlisted investments are stated at fair value based on directors' valuation, which is supported by external experts' advice or other external evidence.

(ii) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iii) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Financial liabilities

(i) Trade payables

Trade payables are not interest-bearing and are stated at nominal value.

(ii) Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of direct issue costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised over the period of the relevant liabilities.

(iii) Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument, and this amount is recorded as a liability at amortised cost. The equity component is the fair value of the compound instrument as a whole less the amount of the liability component, and is recognised in equity, net of income tax effect, without subsequent remeasurement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value being recognised in the income statement.

(iv) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is regulated by the Board or that of the relevant operating subsidiary in accordance with their respective risk management strategies. Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the income statement.

Derivative financial instruments are initially measured at fair value at contract date and are remeasured at each reporting date.

The Group designates hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of currency risk on fixed commitments are accounted for as cash flow hedges.

At the inception of each hedge transaction the issuing entity documents the relationship between the hedging instrument and the hedged item and the anticipated effectiveness of the hedge transaction, and monitors the ongoing effectiveness over the period of the hedge. Hedge accounting is discontinued when the issuing entity revokes the hedging relationship, the hedge instrument expires, is sold, exercised or otherwise terminated, and the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

(v) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised immediately through the income statement, together with any changes in the fair value of the related hedged items due to changes in the hedged risks. On discontinuation of the hedge the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the consolidated income statement from that date.

Notes to financial statements continued

(vi) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. Once the related hedged item is recognised in the income statement, the amounts deferred in equity are recycled through the consolidated income statement. The gain or loss arising from any ineffective portion of the hedge is recognised immediately through the consolidated income statement.

(vii) Hedges of net investments in foreign operations
Gains and losses on hedging instruments relating to the effective portion of such hedges are recognised through the translation reserve, and recycled through the consolidated income statement on disposal of the respective foreign operations. The gain or loss arising from any ineffective portion of such hedges is recognised immediately through the consolidated income statement.

H) Revenue
Revenue comprises the fair value of the sale of goods and services, net of sales tax and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

(ii) Sales of services
Sales of services are recognised in the period in which the services are rendered, by reference to the stage of completion of those services at the period end.

(iii) Income from sales of property
Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

(iv) Investment revenue
Investment revenue comprises proceeds receivable from the sale (trade date) of current asset investments during the year.

I) Inventories
Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials are valued at cost on a first-in, first-out basis.

The costs of finished goods and work in progress include direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving and defective inventories.

Land for resale, which is included in development work in progress, is valued at the lower of cost and net realisable value. Cost includes capitalised interest and those costs necessary to prepare the land for sale.

J) Employee benefits
(i) Retirement and other post-employment obligations
For retirement and other post-employment benefit obligations, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period by independent actuaries. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to the consolidated statement of comprehensive income in the period in which they occur. Remeasurement recorded in the consolidated statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net interest expense or income; and
- actuarial gains and losses.

The Group presents current and past service costs within cost of sales and administrative expenses in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost.

Net interest expense or income is recognised within finance costs.

Actuarial gains and losses are recognised in the consolidated statement of comprehensive income.

In addition, pension scheme administrative expenses including the PPF (Pension Protection Fund) levy and actuary, audit, legal and trustee charges are recognised as administrative expenses.

The retirement benefit and other post-employment benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation
Cash-settled
The Group operates a cash-settled share-based compensation plan for the benefit of certain employees of Coats plc. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled
The Group operates equity-settled compensation plans for the granting of non-transferable options to employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant dates of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions, with a corresponding increase in equity. For shares granted to employees, the fair value of the shares is measured at the market price of the shares, adjusted to take into account the terms and conditions upon which the shares were granted. The fair value of share options is measured using an adjusted version of the Black-Scholes pricing model to reflect the terms and conditions of the options granted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

(iii) Non-share-based long term incentive schemes

The anticipated present value cost of non-share-based incentive schemes is charged to the consolidated income statement on a straight-line basis over the period the benefit is earned, based on remuneration rates that are expected to be payable.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the period end are discounted to present value.

K) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the period end.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The carrying values of deferred tax assets are reviewed at each period end.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

L) Investment income

Income from equity investments is recognised when the legal entitlement vests. Dividends from UK companies are presented net of the attributable tax credit. Dividends received from overseas companies include any withholding taxes, but exclude any underlying tax paid by the investee company on its own profit. Special dividends arising from the Group's investments are included as income in the income statement and, where appropriate, an impairment provision is recognised against the investment.

M) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs, except where otherwise stated, are recognised in the income statement in the period in which they are incurred.

N) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

O) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

P) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Q) Assets held for sale and discontinued operations

Non-current assets and businesses which are to be sold ("disposal groups") classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when such a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are classified as held for sale from the date these conditions are met, and such assets are no longer depreciated.

Discontinued operations are classified as held for sale and are either a separate business segment or a geographical area of operations that is part of a single coordinated plan to sell. Once an operation has been identified as discontinued, or is reclassified as discontinued, the comparative information in the Income Statement is restated.

R) Cash flow

In accordance with the Directors' views, the consolidated statement of cash flows reflects cash flows arising in the normal course of the Parent Group's investment business as part of operating cash flows. The proceeds of sale of Parent Group operating subsidiary and associated undertakings and joint ventures are included within acquisitions and disposals within cash flows from investing activities.

Notes to financial statements continued

Acquisitions and disposals of fixed asset investments, associated undertakings and joint ventures, together with dividends received from associated undertakings and joint ventures, in respect of the Group's operating subsidiaries, remain within cash flows from investing activities, as these are strategic investments by those subsidiaries rather than being held for investment gains.

New IFRS accounting standards and interpretations adopted in the year

During the year, the Group has adopted the following standards and interpretations:

Amendments to IAS 36 ("Recoverable amount disclosures for non-financial assets");

Amendments to IAS 39 ("Novation of derivatives and Continuation of hedge accounting"); and

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

The adoption of these standards and interpretations has had no significant impact on these consolidated financial statements.

New IFRS accounting standards and interpretations not yet adopted

The following published standards and amendments to existing standards, which have not yet all been endorsed by the EU, are expected to be effective as follows:

From the year beginning 1 January 2016:

IFRS 14 ("Regulatory Deferral Accounts");

Amendments to IAS 1 ("Disclosure Initiative");

Amendments to IAS 16 and IAS 38 ("Clarification of Acceptable Methods of Depreciation and Amortisation");

Amendments to IFRS 10, IFRS 12 and IAS 28 ("Investment Entities: Applying the Consolidation Exception");

Amendments to IFRS 10 and IAS 28 ("Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"); and

Amendments to IFRS 11 ("Accounting for Acquisitions of Interests in Joint Operations").

From the year beginning 1 January 2017:

IFRS 15 ("Revenue from Contracts with Customers").

From the year beginning 1 January 2018:

IFRS 9 ("Financial instruments").

The directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosure of financial instruments.

Company

The financial statements comply with applicable UK law and accounting standards, modified where appropriate to present a true and fair view, and have been prepared under the historical cost convention.

A) Fixed assets – investments

Investments in subsidiary undertakings are reflected at cost less provisions for any impairment.

B) Investment income

Income from equity investments is recognised when the legal entitlement vests. Dividends from UK companies are presented net of the attributable tax credit. Dividends received from overseas companies include any withholding taxes, but exclude any underlying tax paid by the investee company on its own profit. Special dividends arising from the Company's investments are included as income in the profit and loss account and, where appropriate, an impairment provision is recognised against the investment.

C) Share-based compensation

Cash-settled

The Company operates a cash-settled share-based compensation plan for the benefit of certain employees of Coats plc. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled

The Company operates an equity-settled compensation plan for the granting of non-transferable options to directors and other employees. For share options granted, the fair value of the shares is measured at the market price of the Company's shares, adjusted to take into account the terms and conditions upon which the share options were granted, using an adjusted version of the Black-Scholes model, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The charge to the profit and loss account has no impact on net assets since the credit is reflected in equity.

D) Taxation

Provision is made for taxation assessable on the profit or loss for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred taxation is measured on a non-discounted basis.

E) Dividends payable

Dividends proposed are recognised in the period in which they are formally approved for payment.

2. Segmental analysis

Operating segments

2014	Thread manufacture £m	Investment £m	Non-operating (see note (i)) £m	Total £m
a) Revenue				
External sales	1,023	–	–	1,023
b) Results				
Continuing operations:				
Operating profit/(loss)	65	(1)	–	64
Interest income – Coats	2	–	–	2
Share of joint ventures' results	1	–	–	1
Finance costs (net)	(21)	(3)	–	(24)
Tax charge	(28)	–	–	(28)
Profit/(loss) after tax	19	(4)	–	15
c) Assets and liabilities				
Assets	756	376	128	1,260
includes share of joint ventures' net assets	9	–	–	9
Liabilities	(560)	(129)	(314)	(1,003)
d) Other disclosures				
Property, plant and equipment – additions	24	–	–	24
Intangible assets – additions	5	–	–	5
Impairment of property, plant and equipment	10	–	–	10
Depreciation charge	26	–	–	26
Impairment of intangible assets	1	–	–	1
Amortisation charge	4	–	–	4

Notes to financial statements continued

2. Segmental analysis continued

2013	Thread manufacture £m	Investment £m	Unallocated £m	Non-operating (see note (i)) £m	Total £m
a) Revenue					
External sales	1,089	–	–	–	1,089
b) Results					
Continuing operations:					
Operating profit/(loss)	79	(38)	–	–	41
Interest income – Coats	3	–	–	–	3
Share of joint ventures' results	1	–	–	–	1
Finance costs (net)	(27)	(4)	–	–	(31)
Tax charge	(32)	–	–	–	(32)
Profit/(loss) after tax	24	(42)	–	–	(18)
Discontinued operations:					
Profit after tax	–	30	16	–	46
c) Assets and liabilities					
Assets	767	386	–	104	1,257
includes share of joint ventures' net assets	8	–	–	–	8
Liabilities	(401)	(78)	–	(321)	(800)
d) Other disclosures					
Property, plant and equipment – additions	24	–	–	–	24
Intangible assets – additions	2	–	–	–	2
Depreciation charge	(29)	–	–	–	(29)
Impairment of intangible assets	(1)	–	–	–	(1)
Amortisation charge	(3)	–	–	–	(3)
Investment impairment	–	(1)	–	–	(1)

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 1. Operating profit is the measure reported to the Company's directors for the purpose of resource allocation and assessment of segment performance for continuing operations.

Geographic segments

	2014			2013		
	External revenue		Non-current assets	External revenue		Non-current assets
	By origin £m	By destination £m	(see note (ii)) £m	By origin £m	By destination £m	(see note (ii)) £m
United Kingdom	**13**	**19**	**168**	14	21	157
Europe, Middle East & Africa (EMEA)						
– Germany	**64**	**43**	**2**	74	50	8
– Rest of EMEA	**179**	**191**	**32**	194	210	45
Americas						
– USA	**181**	**176**	**23**	194	188	20
– Rest of North America	**11**	**15**	**–**	13	16	–
– Brazil	**67**	**67**	**17**	78	78	17
Asia & Rest of world						
– New Zealand	**1**	**1**	**–**	1	1	–
– India	**103**	**100**	**24**	105	100	24
– China & Hong Kong	**100**	**90**	**26**	106	92	26
– Australia	**3**	**3**	**–**	3	4	–
– Other	**301**	**318**	**74**	307	329	73
Total	**1,023**	**1,023**	**366**	1,089	1,089	370

Notes:
(i) Non-operating items comprise:
Assets – cash and cash equivalents, derivatives and investments held by operating subsidiaries, which are not considered to be financial operations, plus taxation assets and non-current assets classified as held for sale; and Liabilities – borrowings, taxation liabilities and liabilities directly associated with non-current assets classified as held for sale.
(ii) Non-current assets exclude financial instruments, deferred tax, pension assets and non-current assets held for sale.

3. Revenue

Year ended 31 December	2014 £m	2013 £m
Continuing operations:		
Sale of industrial thread, Speciality and zips	**754**	775
Sale of consumer textiles crafts	**269**	314
Total sales – continuing operations	**1,023**	1,089
Interest receivable and other investment income	**8**	7
	1,031	1,096
Discontinued operations:		
Sale of investments	**–**	9
Unallocated	**–**	2
Total sales – discontinued operations	**–**	11
Interest receivable and other investment income	**–**	5
	–	16
Total	**1,031**	1,112

4. Operating profit

Year ended 31 December	2014 £m	2013 £m
Cost of sales	**(648)**	(709)
Gross profit	**375**	380
Interest receivable – Parent Group	**6**	4
Distribution costs	**(172)**	(183)
Administrative expenses	**(145)**	(161)
Net operating expenses	**(317)**	(344)
Other operating income	**–**	1
Operating profit	**64**	41

Notes to financial statements continued

5. Profit before taxation from continuing operations

Year ended 31 December	2014 £m	2013 £m
Profit before taxation is stated after charging/(crediting):		
Amortisation of intangible assets	**4**	3
Impairment of intangible assets	**1**	1
Depreciation of property, plant and equipment	**26**	29
Impairment of property, plant and equipment	**10**	–
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	**–**	–
– Fees payable for the audit of the Company's subsidiaries	**2**	2
Other Deloitte LLP services:		
– Taxation services	**–**	1
Total fees charged by Deloitte LLP	**2**	3
Operating lease rentals:		
– Plant and equipment	**4**	5
– Other	**9**	11
Research and development expenditure	**1**	1
Bad and doubtful debts	**3**	1
Net foreign exchange (gains)/losses	**(11)**	2
Rental income from land and buildings	**(1)**	(2)
Inventory as a material component of cost of sales	**385**	417
Inventory write-downs to net realisable value	**2**	4

6. Finance costs (net)

Year ended 31 December	2014 £m	2013 £m
Employee benefits (note 9):		
Interest on defined benefit obligations	**(92)**	(84)
Interest on scheme assets	**86**	74
Effect of asset cap	**(1)**	(1)
Net finance cost of employee benefits	**(7)**	(11)
Interest payable on bank loans and overdrafts	**(17)**	(20)
	(24)	(31)

7. Employee information

Year ended 31 December	2014	2013
The average monthly number of employees (including Executive Directors) in the Group during the year was:		
Continuing operations:		
Corporate – Parent Group	2	14
Thread manufacture	20,577	20,925
	20,579	20,939
Discontinued operations	–	30
TOTAL NUMBER OF EMPLOYEES	20,579	20,969
The average monthly number of employees (including executive directors) in the Company during the year was:		
Corporate – Parent Group	–	9

Employment costs – all employees including directors:

	Group		Company	
Year ended 31 December	2014 £m	2013 £m	2014 £m	2013 £m
Continuing operations				
Aggregate gross wages and salaries	228	241	2	4
Employer's national insurance contributions or foreign equivalents	21	24	–	–
Employer's pension cost	10	6	–	–
	259	271	2	4
Discontinued operations				
Aggregate gross wages and salaries	–	3		
	259	274		
Directors' emoluments				
Aggregate emoluments	1	1		
Pension contributions	–	–		
	1	1		

Notes to financial statements continued

8. Tax on profit from continuing operations

Year ended 31 December	2014 £m	2013 £m
Current tax:		
UK corporation tax at 21.5% (2013: 23.25%)	–	–
Overseas tax charge	(29)	(32)
	(29)	(32)
Deferred tax credit	1	–
Total tax charge	(28)	(32)
The tax charge for the year can be reconciled as follows:		
Profit before taxation from continuing operations	43	14
Profit before taxation multiplied by standard rate of tax in the UK of 21.5% (2013: 23.25%)	9	3
Impact of differences in overseas tax rates	4	3
Other non-deductible expenditure	6	5
Impact of tax losses and other unprovided deferred tax	9	21
Total tax charge	28	32

The tax charge for both years reflects the impact of unrelieved losses around the Group.

9. Employee benefit costs

(a) Pension and other post-employment costs

Pension and other post-employment costs for the year were:

Year ended 31 December		2014 £m	2014 £m	2013 £m	2013 £m
Defined contribution schemes			2		3
Defined benefit schemes –	Coats UK funded	2		(2)	
	Coats US funded	2		2	
	Other Coats funded and unfunded	4		3	
			8		3
	Staveley		–		–
	Brunel		–		–
Administrative expenses for defined benefit schemes			8		6
			18		12

(b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits.

(c) Defined benefit schemes

The Group operates three significant defined benefit schemes in the UK, namely the Brunel Holdings Pension Scheme ("Brunel"), the Staveley Industries Retirement Benefits Scheme ("Staveley") and the Coats Pension Plan ("Coats UK") which offer both pensions in retirement and death benefits to members. In addition, Coats operates the Coats North America Pension Plan ("Coats US") in the US as well as various pension and other post-retirement arrangements around the globe (most significantly in Germany). The assets of the Brunel, Staveley, Coats UK and Coats US plans are held under self-administered trust funds and hence are separate from the Group's assets.

9. Employee benefit costs continued

The following disclosures do not include information in respect of schemes operated by joint ventures.

The Group is exposed to actuarial risks including:

Interest rate risk – the present value of the defined benefit plan liabilities is calculated using a discount rate determined by reference to high quality corporate bond yields. A decrease in bond yield rates will increase defined benefit obligations;

Longevity risk – the present value of the defined benefit plan liability is calculated by reference to the best estimate of member life expectancies. An increase in life expectancy will increase liabilities;

Inflation risk – the present value of the defined benefit liabilities are calculated by reference to assumed future inflation rates. An increase in inflation rates will increase defined benefit obligations; and

Salary risk – certain of the Group's employee benefits are linked to salary and, hence, a faster than assumed increase in salaries may adversely impact on defined benefit liabilities. However, this is not a significant risk to the Group.

Pension costs in respect of these plans are assessed in accordance with the advice of independent, professionally qualified actuaries.

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2014. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2012 for the Coats UK scheme, 31 December 2014 for the Coats US scheme, 5 April 2011 for the Staveley scheme and 31 March 2010 for the Brunel scheme.

Principal assumptions at 31 December 2014	Coats UK %	Coats US %	Coats other %	Staveley %	Brunel %
Rate of increase in salaries	**4.0**	**4.0**	**4.0**	**–**	**–**
Rate of increase for pensions in payment	**2.9**	**–**	**1.9**	**Various**	**Various**
Discount rate	**3.4**	**3.9**	**3.8**	**3.4**	**3.4**
Inflation assumption	**3.0**	**2.5**	**2.8**	**3.0**	**3.0**

Principal assumptions at 31 December 2013	Coats UK %	Coats US %	Coats other %	Staveley %	Brunel %
Rate of increase in salaries	4.3	4.0	4.0	–	–
Rate of increase for pensions in payment	3.1	–	2.9	Various	Various
Discount rate	4.5	4.6	4.9	4.5	4.5
Inflation assumption	3.3	2.5	2.8	3.3	3.3

Notes to financial statements continued

9. Employee benefit costs continued

Amounts recognised in income in respect of these defined benefit schemes are as follows:

For the year ended 31 December 2014	UK £m	US £m	Coats other £m	Coats total £m	Staveley £m	Brunel £m	Group £m
Current service cost	(2)	(2)	(4)	(8)	–	–	(8)
Administrative expenses	(4)	(1)	–	(5)	(2)	(1)	(8)
Included in operating profit	(6)	(3)	(4)	(13)	(2)	(1)	(16)
Interest on defined benefit obligations – unwinding of discount	(68)	(4)	(4)	(76)	(9)	(7)	(92)
Interest on pension scheme assets	65	6	2	73	8	5	86
Effect of asset cap	–	(1)	–	(1)	–	–	(1)
Included in finance costs – net interest (expense)/income	(3)	1	(2)	(4)	(1)	(2)	(7)

For the year ended 31 December 2013	UK £m	US £m	Coats other £m	Coats total £m	Staveley £m	Brunel £m	Group £m
Current service cost	(2)	(2)	(3)	(7)	–	–	(7)
Past service credit	4	–	–	4	–	–	4
Administrative expenses	(4)	–	–	(4)	(1)	(1)	(6)
Included in operating profit	(2)	(2)	(3)	(7)	(1)	(1)	(9)
Interest on defined benefit obligations – unwinding of discount	(63)	(4)	(3)	(70)	(8)	(6)	(84)
Interest on pension scheme assets	56	6	1	63	7	4	74
Effect of asset cap	–	(1)	–	(1)	–	–	(1)
Included in finance costs – net interest (expense)/income	(7)	1	(2)	(8)	(1)	(2)	(11)

During the year ended 31 December 2013 the Group offered certain pensioners within the Coats UK scheme the opportunity to uplift their pension with effect from March 2014, in return for giving up rights to annual inflationary increases. The level of pensioner acceptance resulted in a past service credit of £4 million for the year ended 31 December 2013, net of costs, reflecting the reduction in liabilities which had arisen.

The actual return on scheme assets was £117 million (2013: £145 million) for the Coats UK scheme, £16 million (2013: £3 million) for the Coats US scheme, £2 million (2013: £2 million) for the other Coats schemes, £5 million (2013: £16 million) for the Staveley scheme and £3 million (2013: £12 million) for the Brunel scheme.

9. Employee benefit costs continued

The amounts included in the statement of financial position arising from the Group's defined benefit arrangements are as follows:

As at 31 December 2014	UK £m	US £m	Coats other £m	Coats total £m	Staveley £m	Brunel £m	Group £m
Cash and cash equivalents	40	2	3	45	3	2	50
Equity instruments:							
US	–	24	1	25	–	–	25
UK	235	3	–	238	87	55	380
Eurozone	–	8	–	8	–	–	8
Other regions	234	10	5	249	–	–	249
Debt instruments:							
Corporate bonds	873	80	7	960	84	37	1,081
Government/sovereign instruments	41	24	3	68	6	19	93
Real estate	129	–	–	129	–	–	129
Derivatives:							
Inflation swap	(20)	–	–	(20)	–	–	(20)
Assets held by insurance company:							
Insurance contracts	2	–	3	5	1	–	6
Other	–	3	–	3	–	–	3
Total market value of assets	1,534	154	22	1,710	181	113	2,004
Actuarial value of scheme liabilities	(1,748)	(105)	(103)	(1,956)	(239)	(167)	(2,362)
Gross net (liability)/asset in the scheme	(214)	49	(81)	(246)	(58)	(54)	(358)
Adjustment due to surplus cap	–	(14)	(3)	(17)	–	–	(17)
Recoverable net (liability)/asset in the scheme	(214)	35	(84)	(263)	(58)	(54)	(375)

This amount is presented in the statement of financial position as follows:

Non-current assets:	
Funded	33
Current assets:	
Funded	4
Current liabilities:	
Funded (within provisions)	(18)
Unfunded (within provisions)	(5)
Non-current liabilities:	
Funded	(312)
Unfunded	(77)
	(375)

Notes to financial statements continued

9. Employee benefit costs continued

As at 31 December 2013	UK £m	US £m	Coats other £m	Coats total £m	Staveley £m	Brunel £m	Group £m
Cash and cash equivalents	42	2	3	47	3	4	54
Equity instruments:							
US	–	23	1	24	–	–	24
UK	280	4	–	284	91	60	435
Eurozone	–	8	–	8	–	–	8
Other regions	296	10	7	313	–	–	313
Debt instruments:							
Corporate bonds	613	65	6	684	86	40	810
Government/sovereign instruments	151	20	3	174	6	16	196
Real estate	105	–	–	105	–	–	105
Derivatives:							
Inflation swap	1	–	–	1	–	–	1
Assets held by insurance company:							
Insurance contracts	2	–	1	3	1	–	4
Other	–	6	–	6	–	–	6
Total market value of assets	1,490	138	21	1,649	187	120	1,956
Actuarial value of scheme liabilities	(1,568)	(88)	(90)	(1,746)	(215)	(148)	(2,109)
Gross net (liability)/asset in the scheme	(78)	50	(69)	(97)	(28)	(28)	(153)
Adjustment due to surplus cap	–	(22)	(3)	(25)	–	–	(25)
Recoverable net (liability)/asset in the scheme	(78)	28	(72)	(122)	(28)	(28)	(178)

This amount is presented in the statement of financial position as follows:

Non-current assets:	
Funded	27
Current assets:	
Funded	3
Current liabilities:	
Funded (within provisions)	(18)
Unfunded (within provisions)	(4)
Non-current liabilities:	
Funded	(118)
Unfunded	(68)
	(178)

Included in the tables above are UK equity instruments of £55 million (2013: £60 million), corporate bonds of £140 million (2013: £128 million), government/sovereign instruments of £29 million (2013: £25 million), derivative liabilities of £20 million (2013: £1 million asset), insurance contracts of £7 million (2013: £4 million) and other assets of £3 million (2013: £6 million) without a quoted price in an active market. All other assets have a quoted price in an active market.

For the UK funded schemes the investment policy is centred around establishing for each scheme a cash flow-matching portfolio ("CFM") and a separate return-seeking asset portfolio ("RSA"). The aim of the proposed investment policy is for the CFM to match a pre-determined number of years' liability cash flows, with additional return being targeted via the RSA portfolio, so that the schemes have a high probability of being able to move to a fully matched position at some point in the future.

9. Employee benefit costs continued

The CFM is targeted to be low risk relative to meeting the agreed number of years' cash flows and the focus of the schemes' investment risk will be in respect of the RSA portfolio. The Coats UK scheme also holds inflation swap contracts to provide hedging against movements in inflation. Market implied inflation inside the CFM period is monitored against an agreed set of inflation triggers with the intention of implementing further inflation hedging should these triggers be breached.

The US scheme is fully funded and has a significant proportion of fixed income investments. The fixed income is invested directly to protect the funded status of the scheme. Trustees work with investment managers to consider the liabilities (including key period durations, credit spread duration and convexity) and have created a custom fixed income benchmark to match the liabilities and protect the funded status.

The recoverable surplus on the US scheme has been recognised in line with the benefit from contribution holidays, plus annual refunds expected from the scheme to fund the US post-retirement medical scheme in accordance with relevant US legislation.

The Coats UK and US schemes as well as the Staveley and Brunel schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2014, £82 million (2013: £72 million) related to wholly unfunded arrangements.

Year ended 31 December	2014 £m	2013 £m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(2,109)**	(2,148)
Current service cost	**(8)**	(7)
Past service credit	**–**	4
Interest on defined benefit obligations – unwinding of discount	**(92)**	(84)
Actuarial losses on obligations	**(276)**	(5)
Benefits paid	**127**	127
Exchange difference	**(4)**	4
At 31 December	**(2,362)**	(2,109)
Movements in the fair value of scheme assets were as follows:		
At 1 January	**1,956**	1,893
Interest on scheme assets	**86**	74
Actuarial gains on assets	**65**	110
Contribution from sponsoring companies	**23**	16
Benefits paid	**(127)**	(125)
Administrative expenses paid from plan assets	**(8)**	(6)
Exchange difference	**9**	(6)
At 31 December	**2,004**	1,956
Actuarial gains and losses were as follows:		
Effect of changes in demographic assumptions	**(4)**	–
Effect of changes in financial assumptions	**(267)**	17
Effect of experience adjustments	**(5)**	(22)
Return on plan assets (excluding interest income)	**65**	110
Adjustment due to surplus cap	**10**	1
Included in the statement of comprehensive income	**(201)**	106

Notes to financial statements continued

9. Employee benefit costs continued

For the principal schemes, the assumed life expectancy on retirement is:

	Year ended 31 December 2014				Year ended 31 December 2013			
	Coats UK Years	Coats US Years	Staveley Years	Brunel Years	Coats UK Years	Coats US Years	Staveley Years	Brunel Years
Retiring today at age 60:								
Males	**25.7**	**26.1**	**25.7**	**26.3**	25.6	24.1	25.3	25.9
Females	**27.4**	**28.5**	**28.7**	**28.9**	27.6	25.9	28.4	26.1
Retiring in 20 years at age 60:								
Males	**27.6**	**27.9**	**27.7**	**28.4**	27.6	25.7	26.9	27.5
Females	**29.5**	**30.3**	**30.8**	**31.0**	29.6	26.8	30.1	27.8

Sensitivities regarding the discount rate, inflation (which also impacts the rate of increases in salaries and rate of increase for pension in payments assumptions for the UK scheme) and mortality assumptions used to measure the liabilities of the principal schemes, along with the impact they would have on the scheme liabilities, are set out below. Interrelationships between assumptions might exist and the analysis below does not take the effect of these interrelationships into account:

Year ended 31 December	2014 +0.1% £m	2014 −0.1% £m	2013 +0.1% £m	2013 −0.1% £m
Coats UK discount rate	**(24)**	**26**	(22)	23
Coats US discount rate	**(1)**	**1**	(1)	1
Staveley discount rate	**(3)**	**3**	(3)	3
Brunel discount rate	**(2)**	**2**	(2)	2
Coats UK inflation rate	**20**	**(19)**	18	(17)
Coats US inflation rate	**–**	**–**	–	–
Staveley inflation rate	**2**	**(2)**	2	(2)
Brunel inflation rate	**1**	**(1)**	1	(1)

If members of the Coats UK scheme live one year longer the scheme liabilities will increase by £58 million (2013: £53 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by £3 million (2013: £2 million), however there would be no overall impact on the recoverable surplus. If members of the Staveley and Brunel schemes live one year longer scheme liabilities will increase by £11 million (2013: £11 million) and £8 million (2013: £7 million) respectively.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

9. Employee benefit costs continued

Year ended 31 December	2014 +1% £m	2014 –1% £m	Valuation trend 2013 +1% £m	Valuation trend 2013 –1% £m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	–	–	–	–
Effect on defined benefit obligation of other schemes	2	(1)	1	(1)

The triennial valuation of the Coats UK pension plan as at April 2012 showed an actuarial deficit of £215 million, which equated to a funding level of 87%. A fourteen year recovery plan has been agreed with the trustee, under which contributions of £16 million per annum are payable from November 2013 (of which £2 million per annum relates to future service). This recovery plan will be reviewed at the next triennial valuation as at April 2015. A triennial valuation for Staveley was undertaken as at April 2011 and was finalised during 2012, resulting in an actuarial funding deficit of £20 million, which equated to a funding level of 90%. A recovery plan was agreed, comprised of an initial payment of £5 million followed by monthly payments commencing from July 2012 amounting to £1.3 million per annum for eight years. The trustee of the Staveley scheme has called for a funding valuation with an effective date of 31 December 2013. The last triennial valuation of the Brunel scheme, as at April 2010, was completed in 2011. This did not result in a requirement to make contributions. The triennial valuations for both Staveley and Brunel are on-going and have been delayed by tPR's investigations. The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2015 financial year is £23 million.

The weighted average duration of benefit obligations is 15 years (2013: 14 years) for the Coats UK scheme and 9 years (2013: 8 years) for the Coats US scheme, 13 years (2013: 13 years) for the Staveley scheme and 12 years (2013: 12 years) for the Brunel scheme.

10. Earnings/(loss) per Ordinary Share

Basic earnings per share ("EPS") from continuing and discontinued operations is calculated by dividing the profit attributable to equity holders of the parent company of £9 million (2013: £23 million) by the weighted average number of Ordinary Shares in issue during the year of 1,407,431,333 (2013: 1,433,827,035).

Basic earnings/(loss) per share from continuing operations is calculated by dividing the earnings attributable to equity holders of the parent company of £9 million (2013: loss £23 million) by the weighted average number of Ordinary Shares in issue during the year of 1,407,431,333 (2013: 1,433,827,035).

For the calculation of diluted EPS, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares, being share options granted to employees. There are no differences between the calculated basic earnings/loss per share and the diluted earnings/loss per share for either year.

Year ended 31 December	Profit 2014 £m	Shares 2014 m	Amount per share* (pence)
Continuing and discontinued operations:			
Earnings attributable to equity holders of the parent company	9	1,407	0.64p

Year ended 31 December	Profit 2013 £m	Shares 2013 m	Amount per share* (pence)
Continuing and discontinued operations:			
Earnings attributable to equity holders of the parent company	23	1,434	1.62p

Year ended 31 December	Profit 2014 £m	Shares 2014 m	Amount per share* (pence)
Continuing operations:			
Earnings attributable to equity holders of the parent company	9	1,407	0.66p

Year ended 31 December	Loss 2013 £m	Shares 2013 m	Amount per share* (pence)
Continuing operations:			
Loss attributable to equity holders of the parent company	(23)	1,434	(1.58)p

* Calculations based on results to the nearest £'000s.

Notes to financial statements continued

11. Dividends

No dividend in respect of the year ended 31 December 2014 was paid to GPG shareholders during the year (2013: £Nil).

12. Results of holding company

The Company made a loss of £7 million for the year ended 31 December 2014 (2013: £27 million). As permitted by Section 408 of the Companies Act 2006, the Company has not published a separate profit and loss account in these financial statements.

13. Intangible Assets

Group

COST	Goodwill £m	Brands £m	Other intangibles £m	Total £m
At 1 January 2013	1	153	50	204
Currency translation differences	–	(4)	(1)	(5)
Additions	–	–	2	2
Disposals	–	(1)	–	(1)
At 31 December 2013	**1**	**148**	**51**	**200**
Currency translation differences	**–**	**10**	**–**	**10**
Additions	**–**	**–**	**5**	**5**
Disposals	**–**	**–**	**(1)**	**(1)**
AT 31 DECEMBER 2014	**1**	**158**	**55**	**214**

CUMULATIVE AMOUNTS CHARGED	Goodwill £m	Brands £m	Other intangibles £m	Total £m
At 1 January 2013	–	2	42	44
Currency translation differences	–	(1)	(1)	(2)
Impairment charge for the year	–	1	–	1
Amortisation charge for the year	–	–	3	3
Disposals	–	(1)	–	(1)
At 31 December 2013	**–**	**1**	**44**	**45**
Impairment charge for the year	**–**	**1**	**–**	**1**
Amortisation charge for the year	**–**	**–**	**4**	**4**
Disposals	**–**	**–**	**(1)**	**(1)**
AT 31 DECEMBER 2014	**–**	**2**	**47**	**49**
NET BOOK VALUE AT 31 DECEMBER 2014	**1**	**156**	**8**	**165**
Net Book Value at 31 December 2013	1	147	7	155

The carrying value of brands at 31 December 2014 and 31 December 2013 related to Coats. There is no foreseeable limit to the net cash inflows from royalties, which are generated from continued sales of thread resulting from the Coats brands, and those brands are therefore assessed as having indefinite useful lives. The recoverable amount of these brands has been estimated using the value in use and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on management's recent budgets and forecasts covering the period to 31 December 2015, applying a pre-tax weighted average cost of capital of the relevant business unit and a terminal value including no growth. The pre-tax weighted average cost of capital applied above is 10%. An increase in the weighted average cost of capital to 20% would reduce the value in use of these brands to book value.

14. Property, plant and equipment

Group

COST	Land and buildings £m	Plant and equipment £m	Vehicles and office equipment £m	Total £m
At 1 January 2013	131	441	89	661
Currency translation differences	(5)	(25)	(3)	(33)
Additions	3	14	7	24
Transfer to non-current assets held for sale	(6)	–	–	(6)
Reclassifications	–	(1)	1	–
Disposals	–	(18)	(4)	(22)
At 31 December 2013	123	411	90	624
Currency translation differences	**(2)**	**4**	**–**	**2**
Additions	**3**	**17**	**4**	**24**
Transfer to non-current assets held for sale	**(6)**	**–**	**–**	**(6)**
Disposals	**–**	**(23)**	**(8)**	**(31)**
AT 31 DECEMBER 2014	**118**	**409**	**86**	**613**

ACCUMULATED DEPRECIATION	Land and buildings £m	Plant and equipment £m	Vehicles and office equipment £m	Total £m
At 1 January 2013	60	299	76	435
Currency translation differences	(2)	(18)	(2)	(22)
Depreciation charge for the year	4	21	4	29
Transfer to non-current assets held for sale	(3)	–	–	(3)
Disposals	–	(17)	(4)	(21)
At 31 December 2013	59	285	74	418
Currency translation differences	**–**	**1**	**–**	**1**
Depreciation charge for the year	**3**	**20**	**3**	**26**
Impairment charge for the year	**6**	**4**	**–**	**10**
Transfer to non-current assets held for sale	**(3)**	**–**	**–**	**(3)**
Disposals	**–**	**(22)**	**(8)**	**(30)**
AT 31 DECEMBER 2014	**65**	**288**	**69**	**422**
NET BOOK VALUE AT 31 DECEMBER 2014	**53**	**121**	**17**	**191**
Net Book Value at 31 December 2013	64	126	16	206

Notes to financial statements continued

14. Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Vehicles and office equipment £m	Total £m
Assets charged as security for borrowings:				
31 December 2014	**–**	**1**	**–**	**1**
31 December 2013	–	2	–	2

31 December	2014 £m	2013 £m
Analysis of net book value of land and buildings		
Freehold	**46**	57
Leasehold:		
Over 50 years unexpired	**1**	1
Under 50 years unexpired	**6**	6
	53	64

15. Non-current investments

	Group		Company	
31 December	2014 £m	2013 £m	2014 £m	2013 £m
Interests in joint ventures (see note a) below)	**9**	8	**–**	–
Fixed asset investments (see note b) below):				
listed investments	**1**	1	**–**	–
unlisted investments	**1**	1	**–**	–
Interests in subsidiary undertakings (see note c) below)	**–**	–	**371**	371
	11	10	**371**	371

a) Group – Interests in joint ventures

	£m
At 1 January 2014	**8**
Currency translation differences	**1**
Dividends receivable	**(1)**
Share of profit after tax	**1**
AT 31 DECEMBER 2014	**9**

31 December	2014 £m	2013 £m
Share of net assets on acquisition	**7**	6
Share of post-acquisition retained profits	**2**	2
Share of net assets	**9**	8

15. Non-current investments continued

The following table provides summarised financial information on the Group's share of its joint ventures, relating to the period during which they were joint ventures, and excludes goodwill:

Year ended 31 December **SUMMARISED INCOME STATEMENT INFORMATION**	2014 £m	2013 £m
Revenue	25	18
Profit before tax	1	1
Taxation	–	–
PROFIT AFTER TAX	1	1

31 December **SUMMARISED BALANCE SHEET INFORMATION**	2014 £m	2013 £m
Non-current assets	6	5
Current assets	11	8
	17	13
Liabilities due within one year	(8)	(5)
NET ASSETS	9	8

The Group's share of joint ventures' borrowings is £Nil (2013: £Nil).

See note 29 for details of a guarantee provided by the Group in respect of the banking facilities of Australian Country Spinners Ltd.

No joint ventures are held directly by the Company.

b) Group – Fixed asset investments

	Listed investments £m	Unlisted investments £m	Total £m
At 1 January 2014 and 31 December 2014	1	1	2

c) Company

	Investments in subsidiary undertakings £m
At 1 January 2014 and 31 December 2014	371

Notes to financial statements continued

16. Principal subsidiary undertakings

The Group's principal subsidiary undertakings at 31 December 2014, all of which are included in the Group's consolidated financial statements, are set out below:

Company name	Country of incorporation/registration	Class and percentage of shares held	Nature of business
Coats plc*	England and Wales	100% ordinary shares	Thread manufacture
Brown Shipley Holdings Ltd**,***	England and Wales	100% ordinary shares	Investment company
GPG Securities Trading Ltd**,***	England and Wales	100% ordinary shares	Investment company
GPG (UK) Holdings plc	England and Wales	100% ordinary shares	Investment company
Guinness Peat Group (Australia) Pty Ltd**	Australia	100% ordinary shares 100% preference shares	Investment company

* 56.7% owned directly by the Company.

** These subsidiaries are owned indirectly by the Company.

*** GPG Securities Trading Ltd is the sponsor company for the Staveley pension scheme and Brown Shipley Holdings Ltd is the sponsor company for the Brunel pension scheme.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

	Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2014 £m	2013 £m	2014 £m	2013 £m
Within Coats plc	6	5	16	13

17. Deferred tax assets

	Group	
31 December	2014 £m	2013 £m
Deferred tax assets	10	8

The Group's deferred tax assets are included within the analysis in note 24.

The movements in the Group's deferred tax asset during the year were as follows:

	2014 £m	2013 £m
At 1 January	8	9
Credited/(charged) to the income statement	2	(1)
AT 31 DECEMBER	10	8

18. Inventories

	Group	
31 December	2014 £m	2013 £m
Raw materials and consumables	46	49
Work in progress	30	34
Finished goods and goods for resale	90	87
	166	170

19. Trade and other receivables

31 December	Group 2014 £m	2013 £m
Non-current assets		
Current income tax assets	1	1
Other receivables	9	11
	10	12
Current assets		
Trade receivables	157	162
Amounts due from joint ventures	1	1
Current income tax assets	3	5
Prepayments and accrued income	8	10
Pension surpluses	4	3
Other receivables	23	26
	196	207

The fair value of trade and other receivables is not materially different to the carrying value.

The average credit period taken on sales of goods is 56 days (2013: 60 days). Interest charged in respect of overdue trade receivables is immaterial.

Credit risk is minimised as the exposure is spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts on trade receivables of £10 million (2013: £8 million). This allowance has been determined by reference to past default experience, and the movements in the allowance are analysed as follows:

	2014 £m	2013 £m
At 1 January	8	11
Currency translation differences	–	(1)
Charged to the income statement	3	1
Amounts written off during the year	(1)	(3)
AT 31 DECEMBER	10	8

Notes to financial statements continued

20. Derivative financial instruments – assets

Derivative financial instruments within Group current assets comprise:

31 December	2014 £m	Group 2013 £m
Fair value through the income statement:		
Forward foreign currency contracts	**3**	3

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

21. Trade and other payables

31 December	2014 £m	Group 2013 £m
Amounts falling due within one year		
Trade payables	**146**	135
Amounts owed to joint ventures	**10**	7
Other tax and social security payable	**7**	8
Other payables	**26**	22
Accruals and deferred income	**33**	40
Employee entitlements (excluding pensions)	**14**	16
	236	228
Amounts falling due after more than one year		
Other payables	**9**	11
Employee entitlements (excluding pensions)	**1**	–
	10	11

The fair value of trade and other payables is not materially different to the carrying value.

Trade payables comprise amounts outstanding in respect of trade purchases and ongoing costs. The average credit period taken for trade purchases is 73 days (2013: 68 days).

Interest paid to suppliers in respect of overdue trade payables is immaterial.

31 December	2014 £m	Company 2013 £m
Loans from subsidiary undertakings		
Amounts falling due within one year	**179**	175

22. Derivative financial instruments – liabilities

Derivative financial instruments within non-current and current liabilities comprise:

31 December	2014 £m	Group 2013 £m
Fair value through the income statement:		
Forward foreign currency contracts	5	2
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	1	2
	6	4
Amounts shown within non-current liabilities	–	(1)
Amounts shown within current liabilities	6	3

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

The Company has no derivative financial liabilities (2013: £Nil).

23. Borrowings

31 December	2014 £m	Group 2013 £m
Bank overdrafts	18	11
Borrowings repayable within one year	55	39
Due within one year	73	50
Borrowings repayable between one and two years	195	47
Borrowings repayable between two and five years	–	177
Due after more than one year	195	224
	268	274
Bank overdrafts	18	11
Bank borrowings	250	263
	268	274

At 31 December 2014, the Group's borrowings shown above comprised £264 million of secured borrowings (2013: £260 million) and £4 million of unsecured borrowings (2013: £14 million). Of the borrowings at 31 December 2014 described here as secured, £262 million (2013: £225 million) are subject to guarantees issued by Coats and certain of its principal subsidiaries.

The currency and interest rate profile of the Group's borrowings is included in note 35 on page 93.

Notes to financial statements continued

24. Deferred tax liabilities

	Group 2014 £m	Group 2013 £m
At 1 January	**22**	25
Currency translation differences	**1**	(1)
Charged/(credited) to the income statement	**1**	(1)
Charged/(credited) to other comprehensive income and expense	**1**	(1)
AT 31 DECEMBER	**25**	22

31 December **The Group's net deferred tax liabilities/(assets) are analysed as follows:**	2014 Provided £m	2014 Unprovided £m	2013 Provided £m	2013 Unprovided £m
Accelerated tax depreciation	**13**	**(4)**	16	(2)
Short-term timing differences	**(9)**	**(5)**	(9)	(5)
Revenue losses carried forward	**(36)**	**(183)**	(35)	(171)
Capital losses carried forward	**–**	**(223)**	–	(224)
Unremitted overseas earnings	**12**	**–**	10	–
Brands	**30**	**–**	28	–
Retirement benefit obligations	**5**	**(48)**	4	(19)
	15	**(463)**	14	(421)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2014 £m	2013 £m
Deferred tax assets (note 17)	**(10)**	(8)
Deferred tax liabilities	**25**	22
	15	14

At the year end, the Group had approximately £2.0 billion (2013: £1.9 billion) of unused tax losses available for offset against future profits. A deferred tax asset has been recognised in respect of £183 million (2013: £164 million) of such losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

At the period end, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £Nil (2013: £Nil).

25. Provisions

31 December	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Provisions are included as follows:				
Current liabilities	**48**	48	**12**	9
Non-current liabilities	**14**	16	**1**	1
	62	64	**13**	10

Provisions are analysed as follows:

	2014 £m	2013 £m
Onerous leases	**5**	9
Other provisions	**34**	33
	39	42
Retirement and other post employment obligations in current liabilities	**23**	22
Total provisions	**62**	64

Group	Onerous leases £m	Other provisions £m	Total £m
At 1 January 2014	**9**	**33**	**42**
Currency translation differences	**–**	**(1)**	**(1)**
Utilised in year	**(3)**	**(13)**	**(16)**
Charged to the income statement	**(1)**	**15**	**14**
At 31 December 2014	**5**	**34**	**39**

Provisions for onerous leases are held in respect of leasehold properties for which the Group has rent and other commitments in respect of properties which are vacant or sublet. The majority of head leases expire before 2020.

The currency profile of onerous leases is included in note 35 on page 95 and the maturity of onerous leases is included in note 35 on page 96.

Other provisions include the following:

– amounts set aside to cover certain legal and other regulatory claims which are expected to be substantially utilised within the next ten years;

– costs expected to be incurred in responding to the Warning Notice received from the UK Pensions Regulator ("tPR") in relation to the Coats UK Pension Plan and for progressing the process around the Staveley and Brunel schemes, for the Company and the trustees of these schemes; and

– amounts provided in respect of certain employee incentive arrangements which are expected to be utilised within the next three years.

Company	Onerous leases £m	Other Provisions £m	Total £m
At 1 January 2014	**1**	**9**	**10**
Charged to the profit and loss account	**–**	**10**	**10**
Utilised in year	**(1)**	**(6)**	**(7)**
At 31 December 2014	**–**	**13**	**13**

Other provisions at the Company level includes costs expected to be incurred dealing with the tPR's investigations as set out above.

Notes to financial statements continued

26. Operating lease commitments

31 December	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Outstanding commitments under non-cancellable operating leases:				
Payable within one year	**12**	12	**–**	–
Payable between one and five years	**14**	16	**–**	1
Payable after more than five years	**4**	6	**–**	2
	30	34	**–**	3

At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

31 December	2014 £m	2013 £m
Receivable within one year	**1**	1
Receivable between one and five years	**1**	2
Receivable after more than five years	**–**	2
	2	5

Operating leases relate principally to land and buildings and vehicles.

27. Share capital

Issued and fully paid	31 December 2014 Number	31 December 2014 £m	31 December 2013 Number	31 December 2013 £m
Ordinary Shares of 5p each	**1,407,612,282**	**70**	1,407,152,123	70

The issued Ordinary Share capital of the Company increased during the year to 31 December 2014 as follows:

Date of event	Stock event	No. of shares	£m
1 January 2014	**Brought forward**	**1,407,152,123**	**70**
Various dates	**Exercises of options**	**460,159**	**–**
31 December 2014	**Carried forward**	**1,407,612,282**	**70**

27. Share capital continued

Options outstanding under the Group's 2002 share option scheme at 31 December 2014 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (p per share)	Exercise period
2002 Share Option Scheme				
Ordinary	8,369,973	09.03.05	48.2294	09.03.08 to 09.03.15
Ordinary	6,800,570	04.04.05	44.4444	04.04.08 to 04.04.15
Ordinary	13,066,072	24.10.05	51.0967	24.10.08 to 24.10.15
Ordinary	317,040	07.11.05	51.0967	07.11.08 to 07.11.15
Ordinary	39,625	14.12.05	51.0967	14.12.08 to 14.12.15
Ordinary	9,614,248	15.03.06	56.6480	15.03.09 to 15.03.16
Ordinary	317,034	05.05.06	56.7743	05.05.09 to 05.05.16
Ordinary	3,242,505	11.10.06	58.9820	11.10.09 to 11.10.16
Ordinary	12,126,967	09.03.07	56.5534	09.03.10 to 09.03.17
Ordinary	9,282,068	10.04.08	49.9961	10.04.11 to 10.04.18
Ordinary	3,800,376	30.06.09	25.9529	30.06.12 to 30.06.19

Options exercised during the year comprised 460,159 under the schemes operated by the Group, and 16,647,436 options lapsed.

28. Reserves and non-controlling interests

GROUP	Share premium account £m	Translation reserve £m	Capital reduction reserve £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m
At 1 January 2014	1	22	48	124	179	13
Dividends	–	–	–	–	–	(4)
Share based payments	–	–	–	1	–	–
Currency translation differences	–	(12)	–	–	–	1
Decreases in fair value	–	–	–	(1)	–	–
Transfers to income statement	–	–	–	2	–	–
Actuarial losses on employee benefits	–	–	–	–	(201)	–
Tax on actuarial gains and losses	–	–	–	–	(1)	–
Profit for the year	–	–	–	–	9	6
At 31 December 2014	1	10	48	126	(14)	16

COMPANY	Share premium account £m	Capital redemption reserve £m	Capital reduction reserve £m	Share options reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2014	1	11	48	8	1	50
Loss for the year	–	–	–	–	–	(7)
At 31 December 2014	1	11	48	8	1	43

Notes to financial statements continued

29. Contingent liabilities

Coats' borrowings at the year end include £262 million (2013: £225 million) secured by guarantees issued by Coats plc and certain of its principal subsidiaries.

The Group has guaranteed the banking facilities of Australian Country Spinners Ltd, on a joint and several basis with the other shareholder. The Group's liability under that guarantee, which is limited to 50% of those facilities, amounts to A$3 million (2013: A$3 million).

Guarantees

The Group has guaranteed certain amounts that may become payable in respect of a former subsidiary in Australia. At 31 December 2014, the Group's liability under these guarantees amounted to A$1.7 million (2013: A$1.7 million). At the time of the sale of that former subsidiary, in 2013 the Group was paid A$1.2 million by the former subsidiary in support of any potential claims against the guarantee. The Group holds that A$1.2 million in an interest-bearing bank account on trust for the former subsidiary. On expiry of these guarantees any unutilised balance from the A$1.2 million bank balance, together with any interest received on that account, will be repaid to the former subsidiary. This liability is fully accrued in these financial statements.

Environmental contingent liabilities

As noted in previous reports, the US Environmental Protection Agency ("USEPA") has notified Coats & Clark, Inc. ("CC") that it is a "potentially responsible party" under the US Superfund law for investigation and remediation costs at the Lower Passaic River Study Area ("LPRSA") in New Jersey in respect of an alleged predecessor's former facilities which operated in that area prior to 1950. Approximately 70 companies to date have formed a cooperating parties group ("CPG") to fund and conduct a remedial investigation and feasibility study ("RI/FS") of the area. CC joined the CPG in 2011. The total costs of the RI/FS and related expenditures are currently estimated by the CPG to be approximately $136 million.

Under the interim allocation in place when CC joined the CPG, CC was responsible for approximately 1.7% of the total RI/FS and related CPG costs. During 2012, three companies that had shared a common allocation within the CPG – Tierra Solutions, Inc, Maxus Energy Corporation and Occidental Chemical Corporation (collectively 'TMO') – withdrew from the CPG. TMO is not currently funding the RI/FS, and CC's interim allocation of future RI/FS and related CPG costs is now approximately 2%. The interim allocation is expressly limited to the RI/FS and other authorised expenditures; it does not relate to the ultimate LPR remediation and is subject to reallocation after the RI/FS has been issued. CC believes that there are many parties that will participate in its remediation that are not currently funding the study of the river, including those that are the most responsible for its current contamination, which will reduce CC's allocation.

In April 2014, the EPA released a Focused Feasibility Study ('FFS') for the lower 8 miles of the LPRSA. The FFS analyses a series of remedial alternatives and the EPA has estimated the cost of its preferred remedy at approximately $1.7 billion on a net present value basis. The CPG has submitted extensive comments opposing the FFS during the comment period. The EPA is required to review and respond to all substantive comments submitted by both the CPG and other parties. The EPA is not currently expected to issue a Record of Decision ('ROD') selecting a remedy until the end of H2 2015.

It is not yet known which, if any, of the proposed FFS remedies EPA will select, and there are a number of uncertainties that could have a material effect on the scope and cost of EPA's preferred remedy including:

- The development by the CPG of a Sustainable Remedy proposal that combines targeted dredging of the most contaminated sediment with other pollution control and risk management policies, at a lower cost than EPA's preferred remedy;
- The RI/FS is currently expected to be submitted to EPA in H1 2015, before the expected selection of an FFS remedy for the lower 8 miles, and it is possible that EPA will combine the RI/FS and the FFS to select a single remedy for the entire LPRSA;
- The EPA has specifically requested comment on several aspects of its preferred FFS remedy that could materially affect the scope and estimated cost of the remedy.

Once the RI/FS has been submitted to the EPA and the EPA has issued a ROD for the FFS and/or the RI/FS, it is expected to begin negotiations with PRPs to implement the selected remedy. These negotiations are likely to involve parties that are not currently in the CPG, including TMO and other PRPs who have previously been identified by EPA. While the cost of the remedial design and the FFS and/or RI/FS remedy are expected to be shared among hundreds of parties, the allocation of such costs among these parties is not yet known. The interim CPG allocation does not apply to remedial actions, and non-CPG members not included in the interim allocation are expected to participate in the funding of the remedy.

During 2012, the members of the CPG, including CC, agreed to fund the remediation of one part of the LPRSA (River Mile 10.9). CC's interim allocation of the cost of this is estimated at approximately $0.6 million, which was provided.

29. Contingent liabilities continued

Coats believes that CC's predecessors did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPRSA, that it has valid legal defences which are based on its own analysis of the relevant facts, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. Therefore, while the foregoing factors could reduce CC's relative allocation of remedial costs, the Company cannot predict what CC's share of any such costs would be in light of the significant uncertainties surrounding the selection and cost of EPA's FFS remedy, the number of parties who will participate in the remediation and the relative allocation of costs among such parties. The Company believes, in light of the significant uncertainties at this stage in the process, that it is not possible to reliably estimate future remediation costs nor CC's share of those costs. Accordingly, no provision has been made for such costs at the present time.

Pensions

As described on pages 3 and 4 in the Chairman's Statement, the Group is dealing with investigations by tPR into its three UK defined benefit pension schemes. The outcome of these investigations remains uncertain, but may result in changes to the current deficit recovery plans for these schemes.

30. Capital commitments

As at 31 December 2014, the Group had commitments of £2 million in respect of contracts placed for future capital expenditure (2013: £1 million).

31. Notes to the consolidated statement of cash flows

a) Reconciliation of pre-tax profit to net cash inflow from operating activities

Year ended 31 December	2014 £m	2013 £m
Profit before taxation from continuing operations	**43**	14
Interest and other income – Coats	**(2)**	(3)
Share of profit of joint ventures	**(1)**	(1)
Finance costs (net)	**24**	31
Operating profit	**64**	41
Adjustments for:		
Depreciation	**26**	29
Impairment of property, plant and equipment	**10**	–
Amortisation of intangible assets	**4**	3
Impairment of intangible assets	**1**	1
Profit on disposal of property, plant and equipment	**(2)**	(12)
Decrease/(increase) in trade and other receivables	**10**	(24)
Decrease in inventories	**5**	11
Decrease in provisions	**(14)**	(7)
Increase in trade and other payables	**1**	19
Discontinued operations (including proceeds of sales of Parent Group fixed and current asset investments)	**–**	80
Currency and other adjustments	**(4)**	8
NET CASH INFLOW FROM OPERATING ACTIVITIES	**101**	149

b) Taxation paid

Year ended 31 December	2014 £m	2013 £m
Overseas tax paid	**(34)**	(34)
Discontinued operations	**–**	(1)
	(34)	(35)

c) Investment income

Year ended 31 December	2014 £m	2013 £m
Interest and other income – Coats	**1**	3

Notes to financial statements continued

31. Notes to the consolidated statement of cash flows continued

d) Net capital expenditure and financial investment

Year ended 31 December	2014 £m	2013 £m
Payments to acquire property, plant and equipment	**(24)**	(22)
Receipts from the disposal of property, plant and equipment	**6**	18
Purchase of fixed asset investments (operating subsidiaries)	**–**	(1)
Intangible assets acquired	**(5)**	(2)
Discontinued operations	**–**	1
	(23)	(6)

e) Acquisitions and disposals

Year ended 31 December	2014 £m	2013 £m
Net receipts from sales of businesses (operating subsidiaries)	**–**	1
Discontinued operations (2013 includes proceeds of sales of Parent Group former operating subsidiaries of £37 million and former associated undertakings of £91 million)	**–**	128
	–	129

f) Buyback of Ordinary Shares

Year ended 31 December	2014 £m	2013 £m
Share buybacks	**–**	(45)
	–	(45)

g) Net decrease in borrowings

Year ended 31 December	2014 £m	2013 £m
New loans taken out	**57**	91
Loans repaid	**(84)**	(119)
	(27)	(28)

32. Discontinued operations

The combined results of discontinued operations were as follows:

Year ended 31 December	2014 £m Total	2013 £m Total
Revenue	–	11
Cost of sales	–	(11)
Expenses	–	(6)
	–	(6)
Other income	–	36
Finance costs	–	(1)
Profit before tax	–	29
Attributable tax	–	–
Profit after tax	–	29
Gain on disposal of businesses	–	17
Gain on discontinued operations	–	46

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2014 £m	2013 £m
Property, plant and equipment	1	–
Other fixed asset investments	–	1
Assets held for sale	1	1

Notes to financial statements continued

33. Related party transactions

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided on page 37 in the audited part of the Directors' remuneration report.

Year ended 31 December	2014 £m	2013 £m
Short-term employee benefits	1	1

Trading transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its Joint Ventures are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sales of goods		Purchases of goods		Other income	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Joint Ventures	4	4	29	28	–	3

Transactions with Joint Ventures are conducted on an arm's length basis.

Amounts owing by/(to) Joint Ventures at the year end are disclosed in notes 19 and 21.

34. Post balance sheet event

On 19 February 2015 Coats agreed to sell its EMEA Crafts business for a consideration of US$10 million (£6 million at 2014 year end rate) payable in cash on completion subject to customary adjustments. The sale is conditional upon, inter alia, a limited number of conditions usual for this type of transaction and is expected to complete in the second quarter of 2015. The UK Crafts business will remain within Coats.

For the year ended 31 December 2014, EMEA Crafts (excluding UK) generated external sales of £76 million and an operating loss of £17 million, which includes a property, plant and equipment and intangible assets exceptional impairment charge of £11 million. As at 31 December 2014, after impairment, the business had net tangible assets of £23 million, including cash retained within the business as part of the sale. Given the total consideration for the business of US$10 million (£6 million at 2014 year end rate) and its net tangible asset position of £23 million at 2014 year end, and taking into account completion adjustments and disposal-related costs, a substantial loss on disposal is expected to be recognised on completion of the transaction. The precise quantum will be finalised on completion and will in addition include historical foreign exchange translation gains and losses previously recognised in equity.

The results of the EMEA Crafts business (excluding UK) together with the loss on disposal will be presented as a discontinued operation when the Group reports its 2015 half year results.

35. Derivatives and other financial instruments

The Group's main financial instruments comprise:

FINANCIAL ASSETS:

- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

FINANCIAL LIABILITIES:

- trade, other payables and certain provisions that arise directly from the Group's operations;
- bank borrowings and commercial bills; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

35. Derivatives and other financial instruments continued

FINANCIAL ASSETS

The Group's financial assets are summarised below:

31 December	2014 £m	2013 £m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	**474**	458
Trade receivables (note 19)	**157**	162
Due from joint ventures (note 19)	**1**	1
Other receivables (note 19), net of non-financial assets £12 million (2013: £13 million)	**20**	24
	652	645
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 20)	**3**	3
	3	3
Other financial assets carried at fair value through the statement of comprehensive income:		
Non-current asset investments (available-for-sale – note 15b))	**2**	2
Non-current asset investments (operations held for sale – note 32)	**–**	1
	2	3
Total financial assets	**657**	651

FINANCIAL LIABILITIES

The Group's financial liabilities are summarised below:

31 December	2014 £m	2013 £m
Financial liabilities carried at amortised cost:		
Trade payables (note 21)	**146**	135
Due to joint ventures (note 21)	**10**	7
Other financial liabilities	**73**	78
Provisions (note 25)	**5**	9
Borrowings (note 23)	**268**	274
	502	503
Financial liabilities carried at fair value through the income statement:		
Derivative financial instruments (note 22)	**5**	2
Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income:		
Derivative financial instruments (note 22)	**1**	2
Total financial liabilities	**508**	507

Other financial liabilities include other payables, other than taxation and other statutory liabilities.

Notes to financial statements continued

35. Derivatives and other financial instruments continued

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of the Group's financial assets and liabilities is summarised below:

31 December	2014 Book value £m	2014 Fair value £m	2013 Book value £m	2013 Fair value £m
Primary financial instruments:				
Cash and cash equivalents	**474**	**474**	458	458
Trade receivables	**157**	**157**	162	162
Due from Joint Ventures	**1**	**1**	1	1
Other receivables	**20**	**20**	24	24
Non-current asset investments	**2**	**2**	3	3
Trade payables	**(146)**	**(146)**	(135)	(135)
Due to joint ventures	**(10)**	**(10)**	(7)	(7)
Other financial liabilities and provisions	**(78)**	**(78)**	(87)	(87)
Borrowings	**(268)**	**(268)**	(274)	(274)
Derivative financial instruments:				
Forward foreign currency contracts	**(2)**	**(2)**	1	1
Other net derivative financial instruments	**(1)**	**(1)**	(2)	(2)
Net financial assets	**149**	**149**	144	144

Market values have been used as proxies for the fair value of all listed investments. Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than twelve months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

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 which include inputs for the asset or liability that are not observable market data (unobservable inputs).

35. Derivatives and other financial instruments continued

FINANCIAL ASSETS MEASURED AT FAIR VALUE

31 December	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
2014				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**3**	**–**	**3**	**–**
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	**1**	**–**	**–**	**1**
Bonds	**1**	**1**	**–**	**–**
Total	**5**	**1**	**3**	**1**
2013				
Financial assets measured at fair value through the income statement:				
Trading securities				
Trading derivatives	3	–	3	–
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	3	1	2	–
Total	6	1	5	–

Notes to financial statements continued

35. Derivatives and other financial instruments continued

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

31 December	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
2014				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(5)**	**–**	**(5)**	**–**
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**(1)**	**–**	**(1)**	**–**
Total	**(6)**	**–**	**(6)**	**–**
2013				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(2)	–	(2)	–
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(2)	–	(2)	–
Total	(4)	–	(4)	–

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.

The main risks arising from the Group's financial instruments are as follows:

- currency risk;
- interest rate risk;
- capital risk;
- market price risk;
- liquidity risk; and
- credit risk.

The Group's policies for managing those risks are described on pages 93 to 98 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate.

35. Derivatives and other financial instruments continued

CURRENCY RISK

The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of both its financial assets and financial liabilities are denominated in currencies other than Sterling, which is the Group's presentational currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's Sterling statement of financial position will be affected by short term movements in exchange rates, particularly the value of the Australian, New Zealand and United States dollars and the Euro. The Board takes the view that the major currencies in which the Group is invested move within a relatively stable range and that currency fluctuations should even out over the long term. However, the Board recognises the importance of managing currency risk differently in light of the strategy to return value to shareholders. The current Board strategy is to hold cash in currencies to match known Parent Group liabilities.

At certain times, the Board will make limited use of forward foreign currency contracts and swaps to maintain the Group's relative exposure to the Australian, United States and New Zealand dollars. These contracts tend to have a maturity of less than three months.

Coats uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted in currencies other than its own functional currency. Coats only enters into such foreign currency contracts when there is a firm commitment to the underlying transaction. The contracts used to hedge future transactions typically have a maturity of between 6 months and 2 years.

INTEREST RATE RISK

In 2014, the Group financed its operations through shareholders' funds, bank borrowings and commercial bills. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to bank facilities amounting to some £462 million, of which £305 million had been drawn down at year end. This includes facilities negotiated by certain trading subsidiaries to meet their local needs.

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and risk appetite.

The Group's interest income does not vary significantly from the returns it would generate through investing surplus cash at floating rates of interest since the interest rates are re-set on a regular basis.

A reasonably possible change of one per cent in market interest rates would change profit before tax by approximately £3 million (2013: £3 million), and would change shareholders' funds by approximately £4 million (2013: £5 million).

Trade and other receivables and trade and other payables are excluded from the following disclosure (other than the currency disclosures) as there is limited interest rate risk.

CAPITAL RISK MANAGEMENT

The Group manages its capital so as to ensure that the Company and the Group will be able to continue as a going concern.

The Group's capital structure comprises cash and cash equivalents and borrowings (see Summary of net cash on page 52), and share capital and reserves attributable to the equity shareholders of the Company.

CURRENCY EXPOSURE

The table on page 94 shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation.

Notes to financial statements continued

35. Derivatives and other financial instruments continued

	Net foreign currency financial assets/(liabilities)					
Functional currency 2014	**Sterling £m**	**Australian dollars £m**	**New Zealand dollars £m**	**US dollars £m**	**Other £m**	**Total £m**
Sterling	**–**	**2**	**33**	**81**	**(22)**	**94**
Australian dollars	**–**	**–**	**53**	**23**	**–**	**76**
US dollars	**(4)**	**–**	**–**	**–**	**(9)**	**(13)**
Other currencies	**1**	**(1)**	**–**	**(26)**	**–**	**(26)**
	(3)	**1**	**86**	**78**	**(31)**	**131**

	Net foreign currency financial assets/(liabilities)					
Functional currency 2013	Sterling £m	Australian dollars £m	New Zealand dollars £m	US dollars £m	Other £m	Total £m
Sterling	–	(11)	80	82	(69)	82
Australian dollars	–	–	18	61	–	79
US dollars	(7)	–	–	–	2	(5)
Other currencies	(2)	–	–	(7)	2	(7)
	(9)	(11)	98	136	(65)	149

The following table shows the impact on pre-tax profit and shareholders' funds of reasonably possible changes in exchange rates against each of the major foreign currencies in which the Group transacts:

	US dollars		Australian dollars		New Zealand dollars		Euros	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Increase in £ Sterling exchange rate:		9%		9%		9%		9%
(Decrease)/increase in profit before tax	**(8)**	(7)	**–**	1	**(3)**	(7)	**2**	6
Decrease in shareholders' funds	**(19)**	(13)	**(7)**	–	**–**	(7)	**(1)**	–

35. Derivatives and other financial instruments continued

CURRENCY PROFILE OF FINANCIAL ASSETS

The currency profile of the Group's financial assets was as follows:

31 December					2014					2013
Currency	Investments £m	Cash and cash equivalents £m	Trade and other receivables £m	Derivative financial instruments £m	Total £m	Investments £m	Cash and cash equivalents £m	Trade and other receivables £m	Derivative financial instruments £m	Total £m
Sterling	–	182	4	1	187	–	145	6	43	194
Australian dollars	–	3	–	(1)	2	1	3	1	(1)	4
New Zealand dollars	–	85	–	–	85	–	131	–	–	131
United States dollars	–	136	74	(30)	180	–	128	70	(88)	110
Euros	1	5	29	41	76	1	7	35	29	72
Other currencies	1	63	71	(8)	127	1	44	75	20	140
Total financial assets	2	474	178	3	657	3	458	187	3	651

The investments included above comprise listed and unlisted investments in shares and bonds.

CURRENCY AND INTEREST RATE PROFILE OF FINANCIAL LIABILITIES

The currency and interest rate profile of the Group's financial liabilities was as follows:

31 December					2014					2013
Currency	Floating rate £m	Fixed rate £m	Interest free £m	Derivative financial instruments £m	Total £m	Floating rate £m	Fixed rate £m	Interest free £m	Derivative financial instruments £m	Total £m
Sterling	–	–	10	(46)	(36)	3	–	18	1	22
Australian dollars	–	–	1	–	1	1	–	1	–	2
United States dollars	70	171	111	122	474	–	172	104	6	282
Euros	24	–	23	(38)	9	86	–	26	6	118
Other currencies	3	–	89	(32)	60	15	–	77	(9)	83
Total financial liabilities	97	171	234	6	508	105	172	226	4	507

Notes to financial statements continued

35. Derivatives and other financial instruments continued

The benchmark for determining floating rate liabilities in the UK is LIBOR for both Sterling and US dollar loans. In Australia such rates are based on discounted commercial loan rates.

Details of fixed rate and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

31 December	2014			2013		
	Fixed rate financial liabilities		Financial liabilities on which no interest is paid	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Sterling	–	–	25	–	–	23
United States dollars	3.40	20	–	4.00	19	–
Weighted average	3.40	20	25	4.00	19	23

CURRENCY PROFILE OF FOREIGN EXCHANGE DERIVATIVES

The currency profile of the Group's foreign exchange derivatives (on a gross basis), all of which mature in less than one year, was as follows:

	Assets		Liabilities	
31 December	2014 £m	2013 £m	2014 £m	2013 £m
Currency				
Sterling	46	43	–	(1)
Australian dollars	1	1	(1)	(1)
United States dollars	55	40	(38)	(132)
Euros	45	54	(135)	(31)
Other currencies	41	40	(16)	(12)
	188	178	(190)	(177)

The £2 million net liability (2013: £1 million net asset) in relation to foreign exchange financial instruments in the table above is split £3 million (2013: £3 million) within assets (note 20) and £5 million (2013: £2 million) within liabilities (note 22).

Market Price Risk

The Group has equity and bond available-for-sale investments at 31 December 2014 of £2 million (2013: £3 million) held for strategic rather than trading purposes. The Group does not actively trade these investments and is not materially exposed.

35. Derivatives and other financial instruments continued

LIQUIDITY RISK

Following the Board's announcement in February 2011 of the strategy to undertake an orderly value realisation, cash proceeds from the orderly realisation of investments are being retained in relatively liquid form awaiting the opportunity to return capital to shareholders. Such return of capital is being executed having regard to the actual and contingent liabilities of the Group and, hence, requires liquidity risk to be effectively managed. In response to this, the Group typically holds cash balances in deposits with a short maturity. Additional resources can be drawn through committed borrowing facilities at operating subsidiary level. During the year the Group has complied with all externally imposed capital requirements.

The Group had the following undrawn committed borrowing facilities, in respect of which all conditions precedent had been met at the year end.

31 December	2014 £m	2013 £m
Expiring between one and two years	**158**	–
Expiring between two and five years	**–**	159
	158	159

MATURITY OF UNDISCOUNTED FINANCIAL ASSETS (EXCLUDING DERIVATIVES)

The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

31 December	2014 £m	2013 £m
In one year or less, or on demand	**644**	636
In more than one year but not more than two years	**8**	8
In more than two years but not more than five years	**–**	2
In more than five years	**2**	2
	654	648

MATURITY OF UNDISCOUNTED FINANCIAL LIABILITIES (EXCLUDING DERIVATIVES)

The maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

31 December	2014 £m	2013 £m
In one year or less, or on demand	**303**	276
In more than one year but not more than two years	**197**	50
In more than two years but not more than five years	**4**	181
In more than five years	**–**	1
	504	508

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

Notes to financial statements continued

35. Derivatives and other financial instruments continued

MATURITY OF UNDISCOUNTED FINANCIAL DERIVATIVES

The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows was as follows:

31 December	Assets 2014 £m	Assets 2013 £m	Liabilities 2014 £m	Liabilities 2013 £m
In one year or less, or on demand	**190**	179	**(195)**	(178)
In more than one year but not more than two years	**–**	1	**(1)**	(2)
In more than two years but not more than five years	**1**	–	**–**	–
	191	180	**(196)**	(180)

CREDIT RISK

31 December	2014 £m	2013 £m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**474**	458
Derivative financial instruments	**3**	3
Trade receivables (net of bad debt provision)	**157**	162
Due from joint ventures	**1**	1
Other receivables	**20**	24
	655	648
Financial assets considered not to have exposure to credit risk:		
Non-current asset investments	**2**	3
Total financial assets	**657**	651
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**16**	17
Trade receivables between 1 and 2 months over permitted credit period	**5**	5
Trade receivables between 2 and 3 months over permitted credit period	**1**	1
Trade receivables between 3 and 6 months over permitted credit period	**2**	2
Total gross trade receivables in excess of permitted credit period	**24**	25
Trade receivables within permitted credit period	**133**	137
Total net trade receivables	**157**	162
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**1**	–
Trade receivables between 3 and 6 months over permitted credit period	**1**	–
Trade receivables in excess of 6 months over permitted credit period	**8**	8
Total impairment provision	**10**	8

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual, or more frequent if appropriate, review of their credit limits and credit periods.

The Group does not have a significant credit risk exposure to any single customer.

35. Derivatives and other financial instruments continued

HEDGES

During 2014, the Group hedged the following exposures:

– interest rate risk – using interest rate swaps; and

– currency risk – using forward foreign currency contracts.

At 31 December 2014, the fair value of such hedging instruments was a net liability of £3 million (2013: £1 million).

Cash flow hedges outstanding at 31 December 2014 are expected to impact the income statement in the following periods:

	2014 £m Loss	2013 £m Loss
Within one year	(1)	(1)
Within one to two years	–	(1)
	(1)	(2)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

GAINS/(LOSSES) ON FINANCIAL ASSETS/LIABILITIES

The net loss from buying and selling financial assets and financial liabilities included in the income statement is analysed as follows:

Year ended 31 December	2014 £m	2013 £m
Gains on disposal of investments (excluding derivatives)	–	12
Net investment impairment provision	–	(20)
	–	(8)

Notes to financial statements continued

36. Share-based payments

The Company's share option schemes provide for a grant price equal to the average quoted market price of the Company's shares for 1 to 5 days prior to the date of the grant. The vesting period was 3 years and all options outstanding at 31 December 2014 had fully vested. Any options that remain unexercised after 10 years from the date of grant automatically lapse. Option forfeiture where an employee leaves the Group can occur in certain circumstances.

Only options granted after 7 November 2002 are required to be analysed in this note.

	2014		2013	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	**84,084,073**	**48.43p**	87,579,968	47.53p
Lapsed during the year	**(16,647,436)**	**40.01p**	(1,778,079)	29.32p
Exercised during the year	**(460,159)**	**25.95p**	(1,717,816)	22.57p
Outstanding at end of year	**66,976,478**	**50.68p**	84,084,073	48.43p
Exercisable at end of year	**66,976,478**	**50.68p**	84,084,073	48.43p

The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 1.6 years (2013: 2.2 years).

Under the Group's Long Term Incentive Plan total expenses of £1 million related to equity-settled share-based payments were recognised in the year ended 31 December 2014 (2013: £Nil).

Consolidated income statement (unaudited)

Year ended 31 December	Notes	2014 Before exceptional items Unaudited US$m	2014 Exceptional items Unaudited US$m	2014 Total Unaudited US$m	2013 Before exceptional items Unaudited US$m	2013 Exceptional items Unaudited US$m	2013 Total Unaudited US$m
Continuing operations							
Revenue		1,685.9	–	1,685.9	1,703.7	–	1,703.7
Cost of sales		(1,056.4)	(11.8)	(1,068.2)	(1,079.5)	(30.4)	(1,109.9)
Gross profit		629.5	(11.8)	617.7	624.2	(30.4)	593.8
Distribution costs		(278.5)	(5.3)	(283.8)	(285.7)	–	(285.7)
Administrative expenses		(220.1)	(9.6)	(229.7)	(205.8)	1.8	(204.0)
Other operating income		–	2.9	2.9	–	20.1	20.1
Operating profit		130.9	(23.8)	107.1	132.7	(8.5)	124.2
Share of profits of joint ventures		1.5	–	1.5	0.7	–	0.7
Investment income		2.5	–	2.5	4.9	–	4.9
Finance costs	3	(34.7)	–	(34.7)	(41.7)	–	(41.7)
Profit before taxation	2	100.2	(23.8)	76.4	96.6	(8.5)	88.1
Taxation	4	(45.5)	(0.1)	(45.6)	(51.4)	0.4	(51.0)
Profit from continuing operations		54.7	(23.9)	30.8	45.2	(8.1)	37.1
Discontinued operations							
Loss from discontinued operations		–	–	–	(0.1)	–	(0.1)
Profit for the year		54.7	(23.9)	30.8	45.1	(8.1)	37.0
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		45.1	(23.9)	21.2	37.3	(8.1)	29.2
Non-controlling interests		9.6	–	9.6	7.8	–	7.8
		54.7	(23.9)	30.8	45.1	(8.1)	37.0

Consolidated statement of comprehensive income (unaudited)

Year ended 31 December	2014 Unaudited US$m	2013 Unaudited US$m
PROFIT FOR THE YEAR	**30.8**	37.0
Items that will not be reclassified subsequently to profit or loss:		
– Actuarial (losses)/gains in respect of retirement benefit schemes	**(246.1)**	130.8
– Tax relating to components of other comprehensive income	**(1.7)**	1.4
	(247.8)	132.2
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
– (Losses)/gains arising during the year	**(1.5)**	0.8
– Transferred to profit or loss on cash flow hedges	**3.7**	4.8
Exchange differences on translation of foreign operations	**(13.5)**	(20.5)
	(11.3)	(14.9)
Other comprehensive income and expense for the year	**(259.1)**	117.3
Total comprehensive income and expense for the year	**(228.3)**	154.3
Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	**(237.7)**	147.0
Non-controlling interests	**9.4**	7.3
	(228.3)	154.3

Consolidated statement of financial position (unaudited)

At 31 December	Notes	2014 Unaudited US$m	2013 Unaudited US$m
NON-CURRENT ASSETS			
Intangible assets		**257.8**	257.2
Property, plant and equipment		**297.4**	340.6
Investments in joint ventures		**13.7**	13.7
Available-for-sale investments		**3.0**	3.5
Deferred tax assets		**15.3**	13.6
Pension surpluses		**51.0**	44.6
Trade and other receivables		**16.1**	20.7
		654.3	693.9
CURRENT ASSETS			
Inventories		**257.8**	281.0
Trade and other receivables		**307.9**	342.4
Available-for-sale investments		**0.4**	0.6
Cash and cash equivalents	6	**155.5**	124.9
		721.6	748.9
Non-current assets classified as held for sale		**0.8**	–
TOTAL ASSETS		**1,376.7**	1,442.8
CURRENT LIABILITIES			
Trade and other payables		**(371.6)**	(366.8)
Current income tax liabilities		**(9.2)**	(17.4)
Bank overdrafts and other borrowings		**(113.5)**	(82.4)
Provisions		**(57.6)**	(59.0)
		(551.9)	(525.6)
NET CURRENT ASSETS		**169.7**	223.3
NON-CURRENT LIABILITIES			
Trade and other payables		**(12.6)**	(19.1)
Deferred tax liabilities		**(39.2)**	(36.8)
Borrowings		**(304.6)**	(371.7)
Retirement benefit obligations:			
Funded schemes		**(313.7)**	(105.6)
Unfunded schemes		**(119.1)**	(112.4)
Provisions		**(22.8)**	(23.8)
		(812.0)	(669.4)
TOTAL LIABILITIES		**(1,363.9)**	(1,195.0)
NET ASSETS		**12.8**	247.8
EQUITY			
Share capital		**20.5**	20.5
Share premium account		**412.1**	412.1
Hedging and translation reserves		**(51.0)**	(39.9)
Retained loss		**(393.1)**	(166.5)
EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS		**(11.5)**	226.2
Non-controlling interests		**24.3**	21.6
Total equity		**12.8**	247.8

Consolidated statement of changes in equity (unaudited)

Year ended 31 December	Share capital Unaudited US$m	Share premium account Unaudited US$m	Hedging reserve Unaudited US$m	Translation reserve Unaudited US$m	Retained loss Unaudited US$m	Equity shareholders' funds/(deficit) Unaudited US$m	Non-controlling interests Unaudited US$m	Total equity Unaudited US$m
Balance as at 1 January 2013	20.5	412.1	(9.1)	(16.4)	(329.2)	77.9	19.9	97.8
Profit for the year	–	–	–	–	29.2	29.2	7.8	37.0
Other comprehensive income and expense for the year	–	–	5.6	(20.0)	132.2	117.8	(0.5)	117.3
Total comprehensive income and expense for the year	–	–	5.6	(20.0)	161.4	147.0	7.3	154.3
Disposal of a non-controlling interest	–	–	–	–	1.3	1.3	0.7	2.0
Dividends paid to non-controlling interests	–	–	–	–	–	–	(6.3)	(6.3)
Balance as at 31 December 2013	20.5	412.1	(3.5)	(36.4)	(166.5)	226.2	21.6	247.8
Profit for the year	–	–	–	–	21.2	21.2	9.6	30.8
Other comprehensive income and expense for the year	–	–	2.2	(13.3)	(247.8)	(258.9)	(0.2)	(259.1)
Total comprehensive income and expense for the year	–	–	2.2	(13.3)	(226.6)	(237.7)	9.4	(228.3)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(6.7)	(6.7)
Balance as at 31 December 2014	**20.5**	**412.1**	**(1.3)**	**(49.7)**	**(393.1)**	**(11.5)**	**24.3**	**12.8**

Consolidated statement of cash flows (unaudited)

Year ended 31 December	Notes	2014 Unaudited US$m	2013 Unaudited US$m
Cash inflow from operating activities			
Net cash inflow generated by operations	5	192.6	139.6
Interest paid		(21.9)	(26.2)
Taxation paid		(56.0)	(53.3)
Net cash generated by operating activities		114.7	60.1
Cash outflow from investing activities			
Dividends received from joint ventures		1.5	0.5
Acquisition of property, plant and equipment and intangible assets		(47.4)	(37.8)
Disposal of property, plant and equipment and intangible assets		9.3	28.3
Acquisition of financial investments		–	(1.1)
Disposal of financial investments		0.4	–
Disposal of businesses		–	1.5
Acquisition of investments in joint ventures		–	(0.4)
Net cash absorbed in investing activities		(36.2)	(9.0)
Cash outflow from financing activities			
Dividends paid to non-controlling interests		(6.7)	(6.3)
Decrease in debt and lease financing		(44.0)	(43.3)
Net cash absorbed in financing activities		(50.7)	(49.6)
Net increase in cash and cash equivalents		27.8	1.5
Net cash and cash equivalents at beginning of the year		106.8	110.4
Foreign exchange losses on cash and cash equivalents		(7.7)	(5.1)
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	126.9	106.8
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents		27.8	1.5
Cash outflow from change in debt and lease financing		44.0	43.3
Change in net debt resulting from cash flows (Free cash flow)		71.8	44.8
Other non-cash movements		(2.3)	(2.3)
Foreign exchange losses		(2.9)	(4.1)
Decrease in net debt		66.6	38.4
Net debt at start of year		(329.2)	(367.6)
Net debt at end of year	6	(262.6)	(329.2)

Notes to Coats financial information

1. Basis of preparation

The financial information contained in this section of the report represents the unaudited results of Coats as contained within the audited consolidated financial statements of GPG for the years ended 31 December 2014 and 2013.

It incorporates the consolidated results of Coats Group Limited ("CGL") as adjusted to account for the Coats capital incentive plan ("CIP"), on a basis consistent with that required to be adopted by GPG, and for inclusion in the balance sheet both at 31 December 2014 and 31 December 2013 of $6.0 million of intangible assets held at the GPG level but which are associated with its acquisition of Coats.

The CIP is operated by GPG for the benefit of certain senior CGL employees. In accordance with IFRS, this is accounted for by CGL as an equity-settled compensation plan as CGL has no obligation to settle the share-based payment. Under IFRS, equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant and this fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase recognised in equity as a contribution from the parent. GPG accounts for this arrangement as a cash-settled share-based compensation plan and, in accordance with IFRS, is required to reassess the fair value of the CIP at each reporting date.

CGL is incorporated in the British Virgin Islands. It does not prepare consolidated statutory accounts and therefore the financial information contained in this section of the report does not constitute full financial statements and has not been, and will not be, audited, other than in so far as it is included within audited financial information of its ultimate parent company.

The financial information for the year ended 31 December 2014 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") endorsed by the European Union. The same accounting policies have been applied to the financial information presented for the year ended 31 December 2013.

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

		2014	2013
Average	Sterling	**0.61**	0.64
	Euro	**0.75**	0.75
	Brazilian Real	**2.35**	2.16
	Indian Rupee	**61.01**	58.55
Year end	Sterling	**0.64**	0.60
	Euro	**0.83**	0.73
	Brazilian Real	**2.66**	2.36
	Indian Rupee	**63.03**	61.80

2. Profit before taxation is stated after charging/(crediting):

For the year ended 31 December	2014 Unaudited US$m	2013 Unaudited US$m
Exceptional items:		
Cost of sales:		
US antitrust settlement costs	–	7.2
Reorganisation costs	–	21.6
Impairment of property, plant and equipment and intangible assets	11.8	1.1
US environmental costs	–	0.5
	11.8	30.4
Distribution costs:		
Impairment of property, plant and equipment	5.3	–
Administrative expenses:		
Impairment of property, plant and equipment	1.7	–
Capital incentive plan charge	4.2	0.4
UK Pensions Regulator ("tPR") investigation costs	3.7	–
Transition costs of Coats to a standalone listed entity	–	4.8
UK pension increase exchange offer	–	(7.0)
	9.6	(1.8)
Other operating income:		
Profit on the sale of property	(2.9)	(20.1)
Total	23.8	8.5

An impairment charge of property, plant and equipment and intangible assets of $18.8 million has been made for the year ended 31 December 2014 (2013: $1.1 million) relating to the EMEA Crafts business. Please refer to note 7.

For further details regarding the US environmental costs referred to above see note 29 to the Financial Statements.

3. Finance costs

For the year ended 31 December	2014 Unaudited US$m	2013 Unaudited US$m
Interest on bank and other borrowings	20.4	24.3
Net interest on pension scheme assets and liabilities	7.3	12.3
Other	7.0	5.1
Total	34.7	41.7

Notes to Coats financial information continued

4. Taxation

		2014 Unaudited US$m		2013 Unaudited US$m
UK taxation based on profit for the year:				
Corporation tax at 21.5% (2013: 23.25%)		**4.3**		3.5
Double taxation relief		**(4.3)**		(3.5)
Total UK taxation		**–**		–
Overseas taxation:				
Current taxation		**51.0**		53.4
Deferred taxation		**(3.4)**		(0.7)
		47.6		52.7
Prior year adjustments:				
Current taxation	**(3.3)**		(1.8)	
Deferred taxation	**1.3**		0.1	
		(2.0)		(1.7)
		45.6		51.0

5. Reconciliation of operating profit to net cash inflow generated by operations

For the year ended 31 December	2014 Unaudited US$m	2013 Unaudited US$m
Operating profit	**107.1**	124.2
Depreciation	**42.7**	44.4
Amortisation of intangible assets (computer software)	**5.8**	4.5
Reorganisation costs and impairment (see note 2)	**18.8**	22.7
Exceptional profit on sale of property (see note 2)	**(2.9)**	(20.1)
Other operating exceptional items (see note 2)	**7.9**	5.9
Pre-exceptional operating profit before depreciation and amortisation (EBITDA)	**179.4**	181.6
Decrease in inventories	**8.6**	16.7
Decrease/(increase) in debtors	**15.4**	(32.9)
Increase in creditors	**17.1**	26.4
Provision movements	**(23.1)**	(12.3)
Other non-cash movements	**5.4**	5.6
Net cash inflow from normal operating activities	**202.8**	185.1
Net cash outflow in respect of reorganisation costs	**(3.7)**	(28.2)
Net cash outflow in respect of other operating exceptional items	**(6.5)**	(17.3)
Net cash inflow generated by operations	**192.6**	139.6

6. Net debt

For the year ended 31 December	2014 Unaudited US$m	2013 Unaudited US$m
Cash and cash equivalents	**155.5**	124.9
Bank overdrafts	**(28.6)**	(18.1)
Net cash and cash equivalents	**126.9**	106.8
Other borrowings	**(389.5)**	(436.0)
Total net debt	**(262.6)**	(329.2)

7. Post balance sheet event

On 19 February 2015 Coats agreed to sell its EMEA Crafts business for a consideration of $10 million payable in cash on completion subject to customary adjustments. The sale is conditional upon, inter alia, a limited number of conditions usual for this type of transaction and is expected to complete in the second quarter of 2015. The UK Crafts business will remain within Coats.

For the year ended 31 December 2014, EMEA Crafts (excluding UK) generated external sales of $124.9 million and an operating loss of $28.6 million, which includes a property, plant and equipment and intangible assets exceptional impairment charge of $18.8 million. As at 31 December 2014, after impairment, the business had net tangible assets of $35.4 million, including cash retained within the business as part of the sale. Given the total consideration of $10 million for the business and its net tangible asset position of $35.4 million at 2014 year end, and taking into account completion adjustments and disposal-related costs, a substantial loss on disposal is expected to be recognised on completion of the transaction. The precise quantum will be finalised on completion and will in addition include historical foreign exchange translation gains and losses previously recognised in equity.

The results of the EMEA Crafts business (excluding UK) together with the loss on disposal will be presented as a discontinued operation when the Group reports its 2015 half year results.

Supplementary information

Supplementary information required by the Australian Securities Exchange listing rules for the year ended 31 December 2014 (unaudited)

a) The top 20 registered holdings of the issued Ordinary Shares of 5p each ('Ordinary Shares')[a] at 28 February 2015 were as follows:

Registered Holder	Holding	% Issued shares
THE BANK OF NEW YORK (NOMINEES) LIMITED UKREITS	198,134,344	14.08
HSBC NOMINEES (NZ) LIMITED – NZCSD[b]	151,909,966	10.79
J P MORGAN CLEARING CORP CLIENTSK	123,903,443	8.80
HSBC NOMINEES (NZ) LIMITED A/C STATE STREET – NZCSD	108,010,010	7.67
JPMORGAN CHASE BANK NA NZ – NZCSD	63,355,328	4.50
CHASE NOMINEES LIMITED FISL	60,207,782	4.28
NATIONAL NOMINEES NZ LIMITED – NZCSD	46,368,608	3.29
CITICORP NOMINEES PTY LIMITED	31,734,730	2.25
JP MORGAN NOMINEES AUSTRALIA LIMITED	31,004,346	2.20
BNP PARIBAS NOMINEES (NZ) LIMITED – NZCSD	28,806,379	2.05
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	24,362,739	1.73
NORTRUST NOMINEES LIMITED TDS	20,000,000	1.42
MR B A NIXON	17,811,406	1.27
NATIONAL NOMINEES LIMITED	17,516,846	1.24
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	16,905,000	1.20
SIR RON BRIERLEY	16,882,765	1.20
NEW ZEALAND SUPERANNUATION FUND NOMINEES LIMITED – NZCSD	15,094,174	1.07
THE BANK OF NEW YORK (NOMINEES) LIMITED	15,059,951	1.07
CITIBANK NOMINEES (NEW ZEALAND) LIMITED – NZCSD	14,064,776	1.00
BNP PARIBAS NOMINEES (NZ) LIMITED – NZCSD	12,500,000	0.89

b) The spread of holdings in the issued Ordinary Shares at 28 February 2015 was as follows:

Range	No. holders	%	No. of shares	%
1 to 1,000	3,631	19.33	1,007,585	0.07
1,001 to 5,000	5,928	31.56	15,985,919	1.14
5,001 to 10,000	3,144	16.74	22,660,053	1.61
10,001 to 100,000	5,581	29.72	153,767,139	10.92
Over 100,000	498	2.65	1,214,191,586	86.26
	18,782	100	1,407,612,282	100

The number of holders holding less than a marketable parcel of GPG Ordinary Shares as at 28 February 2015 was 4,048.

Coats Group plc is incorporated in England and Wales, and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares. The UK Takeover Code, which applies to Coats Group plc, limits acquisition of an interest in 30% or more of the Ordinary Shares in Coats Group plc.

a In Australia, this includes CHESS Depository Interests

b NZSCD means New Zealand Central Securities Depository

Company and Registrars' addresses

UNITED KINGDOM

1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD
Tel: 020 8210 5000 Facsimile: 020 8210 5025
www.coats.com

AUSTRALIA

c/o BDO East Coast Partnership
Level 10, 1 Margaret Street, Sydney NSW 2000
Tel: 02 9251 4100 Facsimile: 02 9240 9821

NEW ZEALAND

c/o Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
Tel: 09 488 8700 Facsimile: 09 488 8787

Incorporated and registered in England No. 103548
Registered office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD

LOCATION OF SHARE REGISTERS

The Company's register of members is maintained in the UK with branch registers in Australia and New Zealand. Register enquiries may be addressed direct to the Company's share registrars named below:

Registrar	Telephone and postal enquiries	Inspection of Register
UK Main Register: Computershare Investor Services PLC	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ Tel: 0870 707 1022 Facsimile: 0870 703 6143	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
Australian Branch Register: Computershare Investor Services Pty Limited	GPO Box 3329, Melbourne VIC 3001 Freephone: 1 800 501 366 (within Australia) Tel: 03 9415 4083 Facsimile: 03 9473 2500	Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067
New Zealand Branch Register: Computershare Investor Services Limited	Private Bag 92119, Auckland 1142 Tel: 09 488 8777 Facsimile: 09 488 8787	Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622

MANAGING YOUR SHAREHOLDING ONLINE

UK registered members

To manage your shareholding online, please visit:

www.investorcentre.co.uk

Australia and New Zealand registered members

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:

www.investorcentre.com/NZ

General enquiries can be directed to:

enquiry@computershare.co.nz

Please assist our registrar by quoting your CSN or shareholder number.

Notes

Coats Group plc
1 The Square
Stockley Park
Uxbridge
Middlesex UB11 1TD

Tel: 020 8210 5000
www.coats.com

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