

10 March 2016

Coats Group plc

Annual Financial Report 2015

Coats Group plc ('Coats' or the 'Company') has today submitted to the Financial Conduct Authority's national storage mechanism its Annual Financial Report for the year ended 31 December 2015 ('Annual Report 2015'), as required by UK Listing Rule 9.6.1.

The Annual Report 2015 is available from the Company's website, www.coats.com, and will also be available for viewing at the Financial Conduct Authority's national storage mechanism at www.morningstar.co.uk/uk/NSM.

The Company has also released a PDF copy of its Annual Report 2015 to the New Zealand Stock Exchange and Australian Securities Exchange.

On 4 March 2016, The United States Environmental Protection Agency announced a final Record of Decision for the remediation of the lower 8 miles of the Lower Passaic River. The implications of this announcement have been reflected in the Annual Report and audited financial statements. Consequently, the results presented in the Annual Report supersede the Group's unaudited results announced on 25 February 2016.

This announcement also contains as appendices additional information for the purposes of compliance with the UK Disclosure Rules and Transparency Rules, including principal risk factors, details of related party transactions and a responsibility statement. This information is extracted, in full unedited text, from the Annual Report 2015. The Preliminary Announcement released on 25 February 2016 contained a condensed set of financial statements together with extracts of the Company's management report, and is also available to view on the Company's website, www.coats.com/investors/fy15. These announcements should be read in conjunction with and are not a substitute for reading the full Annual Report 2015.

Stuart Morgan
Company Secretary
10 March 2016

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Appendix

Principal risks and uncertainties

A description of the principal risks the company faces is extracted from pages 30 to 33 of the Annual Report 2015.

It is the responsibility of the Board and its various Committee's to identify and understand the key risks faced by the business and to ensure mitigating action is taken to control them.

Those risks are:

Principal risk	Risk nature / potential impact	Action / mitigation
<i>High impact operational risks</i>		
Product liability	Our expanding product range, in particular in our growing Speciality business, could potentially create more product liability exposure for the Group	Products are tested and measured against stringent quality standards. Controls in the Speciality area specifically have been strengthened with enhanced batch by batch testing of safety critical products. Coats' global insurance programme includes product liability cover.
Environmental non-performance	Potential non-compliance with environmental control procedures and/or local requirements could lead to a discharge of pollution resulting in legal and regulatory action, financial penalties, damage to reputation and an adverse impact on ongoing operations.	Coats' Environmental Policy applies across the Group and effluent discharge quality of all dyeing operations is monitored against a pre-determined schedule
Failure of critical infrastructure	Key information systems and data stores could malfunction; and/or key manufacturing and distribution centres could be adversely affected as a result of a number of different scenarios. Disproportionate reliance on such systems and plants could have a significant impact on profitability in the event of such disruption.	The Group's manufacturing and supply chain function monitors and reviews internal supply chains, fire protection and other systems and creates and tests disaster recovery plans. Rolling property risk surveys are conducted and acted upon in respect of all Coats' critical supply chain nodes. Actions in relation to information systems and data stores are set out in 'Data controls and security'. Coats' global insurance programme includes property destruction and business interruption cover.

<p>Data controls and security</p>	<p>As a data controller of personal data and a processor of third party data, failure by the Group to comply with ever-more stringent data protection laws in different countries could lead to significant financial and other penalties and adverse relationship and reputational consequences. The Group also maintains other business critical electronic information, and inappropriate access to and use of such information, including through cyber-attack, could again create significant financial and commercial exposure.</p>	<p>Coats coordinates its technology infrastructure on a global basis and has a number of cyber security controls in place. Internal data networks are monitored on a 24/7 basis by a central team. External internet access is controlled by policy-based web filtering and access management tools. Other technologies, including data encryption, are deployed to protect data assets hosted at its data centres and on mobile devices. Further controls are being progressively added as part of an ongoing cyber security risk management process.</p> <p>Coats ensures all internal users have appropriate access rights and permissions for their roles and has a global data protection policy in place. Provisions are underway to ensure compliance with the EU General Data Protection Regulation expected to be enforced in 2018.</p>
<p>Bribery and anti-competitive behaviour</p>	<p>Non-compliance with applicable bribery and corruption and/or competition/anti-trust laws, regulations and standards by the Group or one of its partners could result in material civil or criminal penalties, exclusion from future contract bidding processes and reputational damage.</p>	<p>The Group has clear and well publicised ethics policies including in relation to partners, contractors and suppliers which are reinforced through the ongoing implementation of a comprehensive Supplier Code. There is extensive online and face-to-face training and regular communications through a range of channels. A sub-committee of the Group Risk Management Committee comprising key business and functional leaders meets quarterly to consider risks, legislative and regulatory developments and mitigation plans. The Group actively maintains a</p>

		whistle blower system, enabling employees and others who are aware of or suspect unethical behaviour to report it confidentially.
<i>Material legacy risks</i>		
Pensions investigation and pension scheme deficit funding	<p>The UK Pensions Regulator's investigations could lead to a Financial Support Direction being imposed on one or more of the three UK Schemes.</p> <p>Additionally, the UK pension scheme triennial valuations could lead to increased and/or accelerated cash contributions.</p> <p>These potential scenarios could impact one or more of the cash held from divestments, free cash flow targets and dividend payments.</p>	<p>The strategy relating to the ongoing investigations, and the schemes' funding position more generally, are regularly reviewed by the Board in light of recommendations from the Pensions Committee.</p> <p>The funded pension schemes are overseen by their Trustees, who are required to have the appropriate knowledge and understanding in this area and who take professional and actuarial investment advice as necessary. Where appropriate independent professional trustees are appointed to schemes to provide additional expertise.</p> <p>The Group and the scheme trustees routinely review de-risking of the schemes through liability management and investment strategies.</p>
Legacy environmental risks	Under the laws of certain countries, Coats' subsidiaries could potentially be responsible for investigating and/or remediating conditions alleged to be associated in whole or in part with former operations.	The Board continues to monitor the strategy and developments in relation to the Lower Passaic River proceedings, more detail of which can be found in note 28. Beyond that the Group continues to refine its policies and procedures for managing and mitigating potential legacy risks associated with former operations.
<i>Risks to strategy delivery</i>		
Mergers and acquisitions (M&A) programme – execution and integration	Given the important role of inorganic growth in the Group's strategic plans, failure properly to execute, integrate and capitalise on	All M&A projects are overseen and closely monitored by the Board and by senior executive management. Clear

	<p>the potential ongoing value in M&A projects could pose a material risk to the Group's ability successfully to deliver its strategy.</p>	<p>processes including specified roles and responsibilities for all aspects of M&A projects exist along with focused project management resources during both execution and integration phases. Post-completion/integration reviews are conducted to ensure that learnings are identified and built into subsequent projects as part of a continuous enhancement process</p>
<p>Appropriate capability development</p>	<p>Failure to identify and retain key staff and/or continue to develop key skill sets among them could result in an inability to execute the Group's growth strategy.</p>	<p>The Board and senior management remain very focused on talent and capability development, as well as retention and succession planning. 2015 capability development actions have included record numbers of new cohorts on a range of sales force, management and senior management development programmes and individual coaching for selective senior managers. In addition, our annual Talent Management and Succession Planning process reviews talent in the top 300 roles.</p>
<p>Joint ventures/minority shareholder relationships</p>	<p>Failure to ensure that appropriate governance and risk management arrangements are maintained for all of the Group's joint ventures and with all minority shareholding partners could cause significant disruption to the Group's operations, financial performance and strategic plans.</p>	<p>We conduct appropriate due diligence on all our joint venture partners and take steps to ensure that the same standards of risk management that exist in our subsidiaries are applied throughout our joint venture partnerships. In 2015 we completed an exit from our only minority stakeholding joint venture (in the Philippines).</p>
<p>Supply and supplier risk</p>	<p>The availability of key resources (energy, water, labour, etc.) and/or the inability or unwillingness of one or more major external</p>	<p>Supplier relationships and external resource and supply chains are actively monitored and managed, with multiple sourcing of</p>

	<p>suppliers to supply raw materials, dye stuffs and/or finished goods could cause major disruption to the Group's supply chain, leading to lost revenue and long term impact on customer relations. Furthermore, actions by suppliers and other agents of the Group inconsistent with legal and regulatory requirements and/or the Group's own ethical standards could create significant legal and reputational exposure for the Group.</p>	<p>materials and strategic inventories. Risk is spread by dealing with multiple suppliers of key materials and continuous scrutiny to identify new supply sources. Ethics and compliance obligations are reinforced and enforced through the ongoing implementation of a comprehensive Supplier Code (see above). Coats' global insurance programme includes supplier dependency cover</p>
<p>Emergence of disruptive competitor behaviour in core markets</p>	<p>Planned or irrational strategies or behaviours by one or more industry competitors in relation to the Group's core markets could adversely impact its position, profitability and strategic goals.</p>	<p>We strongly believe in the importance of healthy competition and the benefits that brings to both our customers and ourselves. We maintain a deep understanding of emerging industry trends through our relationships and contacts with customers and global brands and through our R&D activities with university and specialist led research projects. Outputs and insights from these allow us to undertake ongoing 'horizon scanning' and planning strategies.</p>

Related party transactions

A description of the related party transaction of the Company is extracted from page 114 of the Annual Report 2015:

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 pages 48-61 in the audited part of the Directors' remuneration report.

Year ended 31 December	2015 US\$m	Restated 2014 US\$m
Short-term employee benefits	5.1	1.0

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:

	Sale of goods		Purchase of goods		Other income	
	2015 \$m	Restated 2014 \$m	2015 \$m	Restated 2014 \$m	2015 \$m	Restated 2014 \$m
Joint ventures	5.5	5.9	44.1	47.0	0.1	0.3

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 18 and 20.

During the year the Group sold its shareholding in its joint venture in the Philippines to its joint venture partner (see note 15 for further details).

Responsibility statement

The following responsibility statement is repeated here solely for the purpose of complying with Disclosure and Transparency Rule 6.3.5. This statement relates to and is extracted from page 65 of the Annual Report 2015. Responsibility is for the full Annual Report 2015 and not the extracted information presented in this announcement or the Preliminary Announcement released on 25 February 2016.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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;
- 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; and
- 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.

This Directors' responsibility statement was approved by order of the Board.