

Guinness Peat Group plc (‘GPG’ or ‘the Company’)

Q3 2014 Interim Management Statement

GPG today publishes its interim management statement (IMS) covering the period from 1 July to 27 October 2014. This IMS includes details of third quarter 2014 trading (Q3) for Coats, the Company’s remaining operating business, GPG’s financial position, and an update on the investigations being carried out by the UK Pensions Regulator (tPR).

Coats

Q3 year-on-year sales performance

	Q3 like-for-like sales*	Q3 reported sales
Group	0%	0%
Industrial Division	5%	4%
Crafts Division	(10)%	(9)%

* Like-for-like restates 2013 figures at 2014 exchange rates

Trading performance

Coats’ like-for-like sales performance since the half year has been in line with management expectations.

The Industrial Division continued to deliver solid sales growth, up 5% on a like-for-like basis, maintaining the positive momentum from the first half of 2014. However due to the reduced demand for fashion handknitting products in 2014, as highlighted in the half year 2014 results, sales in the Crafts Division were, as expected, lower year-on-year (down 10% like-for-like).

The differing performance between Divisions led to a flat sales performance year-on-year at a Group level. The minor variation between like-for-like and actual sales at a Divisional level reflects the relative movements between the US dollar and the currencies in which Industrial and Crafts sales were made.

Pre-exceptional operating profit and attributable profit remained in line with management expectations. Ongoing procurement improvements, productivity gains and pricing initiatives have continued to offset inflationary input cost rises.

Coats continues to focus on ensuring resilient free cash flow, including working capital management, and the global tax review is on track to deliver its first benefits in late 2014, as indicated in the 2014 half year results.

Industrial Division

Industrial sales increased 5% on a like-for-like basis compared with Q3 2013 with all three regions delivering year-on-year growth. In Asia sales grew in the majority of countries in which Coats operates with the largest gains in footwear and Speciality, while in EMEA ongoing growth in both Speciality and zips sales contributed to another robust quarter. The Americas delivered a strong quarterly sales performance driven by the North American Speciality business, particularly within the automotive and protective clothing markets.

Crafts Division

Quarterly Crafts sales declined 10% on a like-for-like basis. This was primarily due to the impact of lower demand for fashion handknitting products in North America and EMEA during 2014. Although Divisional sales were down year-on-year, the decline in Q3 was lower than that in Q2, largely due to an improvement in core handknitting sales in North America.

Trading outlook

Coats maintains its full year outlook, as presented in its half year 2014 results. At a Group level it is expected that operating profit will be further impacted by Crafts performance although attributable profit will be in line with market expectations. The Industrial Division is expected to deliver year-on-year sales growth with volume growth through market share gains, new market entry and underlying market growth. Cost increases will continue to be offset by procurement improvements, productivity gains and pricing initiatives. Crafts performance is expected to improve on H1 2014, driven primarily by increased sales and cost reduction initiatives, however trading will remain challenging. The EMEA Crafts strategy review is on track for completion in Q4 2014 and Coats will update the market in its preliminary full year 2014 results.

Appointment of new Executive Director to Coats Board

Rajiv Sharma, Global CEO, Coats Industrial, has been appointed as an Executive Director of the Coats Board, effective 1 December 2014. Rajiv joined Coats in November 2010 to head the Industrial Division which, under his leadership, has been at the forefront of product and service innovation for the global apparel and footwear industries, consistently delivering profitable sales growth. The Division also houses the fast growing Speciality business, which produces high technology threads and yarns from performance materials for non-apparel and footwear uses such as tracer threads, automotive, aramids and fibre optics.

Rajiv has previously held a number of senior management roles in companies such as Westinghouse, SAAB, Honeywell, GE and Shell.

GPG financial position

Unaudited GPG Parent Group cash at 30 September 2014 was £369 million and was denominated in the following currencies:

	30 June 2014	30 September 2014
	£m	£m
GBP	144	139
NZD	133	126
USD	96	100
AUD	3	3
Total	376	369

The decline during the quarter was due to expenditure on tPR's investigations, one-off redundancy costs in relation to the exit of the remaining GPG executives in June 2014 and foreign exchange movements.

As at 30 September 2014, GPG's net asset backing per share stood at 24.5p, compared with 28.4p at 30 June 2014. The decline primarily reflects rolled forward IAS 19 calculations for the three group UK defined benefit schemes. During the third quarter of 2014 the combined net deficit increased by £59 million:

IAS 19 deficit	30 June 2014	30 September 2014
	£m	£m
Coats	108	148
Brunel	35	42
Staveley	35	47
Total	178	237

The increase in the deficits for the Coats, Brunel and Staveley schemes was due to a 30 basis point (bps) reduction in the discount rate applied, which was only partially offset by a 10 bps fall in the inflation rate.

Other developments

Update on UK Pensions Regulator's investigations

GPG has not received a Warning Notice in relation to the Coats Plan, or confirmation that one will be issued. However tPR has indicated that it contends that at least one of the sponsoring companies for the Coats Plan was insufficiently resourced as at the relevant date (31 December 2012). The Board and its external advisers do not accept tPR's contention. As previously disclosed the Board, following external advice, submitted calculations to tPR which showed that all the sponsoring companies for the Coats Plan were sufficiently resourced as at the relevant date.

tPR subsequently asked for additional calculations, which GPG submitted and to which it is awaiting a response. GPG will update the market in the event that tPR issues a Warning Notice in relation to the Coats Plan. As with the process for the Brunel and Staveley investigations, GPG, the trustees of the Coats Plan and in this case Coats, would then have the opportunity to provide representations on the Warning Notice.

At the end of September 2014, and in accordance with tPR's deadline, GPG submitted written representations on the Warning Notices the Company received in relation to the Brunel and Staveley pension schemes. As previously indicated, any hearing before the Determinations Panel is unlikely before the first half of 2015 at the earliest.

The Board and management continue to engage constructively with tPR and are maintaining an open dialogue with the trustees of the relevant pension schemes. All options are being explored to try to resolve these matters as efficiently as possible, recognising the interests of both shareholders and pension scheme members. Once these matters are clarified, the Board expects to run an appropriately leveraged balance sheet and pay annual dividends to shareholders from free cash flows generated by the Coats group.

Full year 2014 results

GPG is scheduled to release its full year results to 31 December 2014 on 26 February 2015 (GMT).

This IMS has been prepared solely to provide additional information to shareholders to meet the requirements of the UK Listing Authority's Disclosure and Transparency Rules and should not be relied on by any other party or for any other purpose. The financial information on which this statement is based has not been reviewed or reported on by GPG's auditors.

Enquiry details

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About Coats

With a rich heritage dating back to the 1750s, Coats is the world's leading industrial thread and consumer textile crafts business, at home in more than 70 countries, employing more than 20,000 people across six continents. Revenues in 2013 were US\$1.7bn.

Our well-known brands and strong relationships with customers and consumers mean our products and services meet current and future needs. Our company-wide understanding of our business partners and consumers, coupled with the deep expertise of our people, builds trust and certainty.

Coats' pioneering history and innovative culture ensure the company continues leading the way around the world: providing complementary and value added products and services to the apparel and footwear industries; extending the crafts offer into new markets and online; and applying innovative techniques to develop products in new areas such as tracer threads, aramids and fibre optics.

- One in five garments on the planet is held together using Coats' thread
- 100 million car airbags are made using Coats' thread every year
- Coats produces enough yarn to knit 70 million scarves a year
- In three and a half hours, Coats makes enough thread to go to the moon and back
- 400 million pairs of shoes are made every year using Coats' thread
- One million teabags using Coats' thread are brewed every 10 minutes
- Thousands of surgical operations take place every day using Coats' thread
- Thomas Edison used Coats' thread in 1879 to invent the light bulb
- Coats produces enough thread to reach around the Equator every 11 minutes
- Coats is the second largest and fastest growing global zip manufacturer

To find out more about Coats visit www.coats.com