Coats Group plc

7 March 2024

2023 Full Year Results

Strong EBIT margin performance – 17% achieved in H2 – one year ahead of 2024 target with continued market share gains

Coats Group plc ('Coats,' the 'Company' or the 'Group'), the world's leading industrial thread and footwear components manufacturer, announces its audited results for the year ended 31 December 2023.

Continuing operations	FY 2023	FY 2022 [4]	FY 2023 vs FY 2022		
			Reported	CER	Organic
Revenue	$1,394m	$1,538m	-9%	-6%	-14%
Adjusted [1]					
EBIT[6]	$233m	$233m	0%	4%	-4%
Basic earnings per share	8.0c	8.0c	0%		
Free cash flow	$131m	$114m			
Net debt (excl. lease liabilities)	$384m	$394m			
Reported [2]					
EBIT[6]	$184m	$181m	2%		
Basic earnings per share [5]	5.2c	4.8c	7%		
Net cash generated by operating activities	$124m	$96m			
Final dividend per share [7]	1.99c	1.73c			

Strategic Highlights

- Continued outperformance against the industry - market share gains in Apparel and Footwear of c.200bps each
- Clear global market leader in 100% recycled thread products - revenue grew 44% to $172 million at constant currency, despite lower industry volumes
- Strategic projects delivered further $37 million of accelerated savings, with overall savings on track for $70 million by 2024, for $35-40 million, considerably less than previous guidance of $50 million cash cost
- Integration synergies from Texon and Rhenoflex has delivered a total of $16 million savings to date ($19 million annualised), well ahead of pre-acquisition expectations ($11 million by 2024)
- Received Great Place to Work accolade – recognised as one of the world's top 25 places to work
- "Off trigger" activated for UK pension scheme, resulting in £2 million per month cash savings in 2024; working towards full pension scheme de-risking in the medium term

Financial Highlights

- Reported revenue down 9%
- Organic revenue 14% lower, on improving trend (H1: 19% lower; H2 10% lower) with:
    - Continued outperformance versus industry - Apparel and Footwear markets estimated c.20% lower
    - Apparel brand inventory levels normalised; gradual recovery trend underway
    - Footwear recovery lagging Apparel as destocking commenced later

    - Performance Materials largely reflects customer contract insourcing and US customer phasing issues
- Achieved 2024 Group adjusted EBIT margin target 17% in the second half, one year ahead of plan
- Strong adjusted free cash flow of $131 million, despite lower sales volumes, including well-managed working capital
- Net debt (excluding lease liabilities) lower at $384 million with 1.5x leverage3, in the middle of our 1-2x target range
- Proposed final dividend of 1.99 cents, +15%, resulting in full year dividend of 2.80 cents, +15%; reflecting the Board's confidence in growth strategy and future performance

Outlook
The Group expects to make good progress in 2024 underpinned by modest revenue growth, with a weighting to the second half, as Apparel and Footwear gradually recover, and with increasing tender activity in Performance Materials. Our continued focus on controlling our costs, including the benefits of strategic projects, increases our confidence in achieving our 17% Group EBIT margin target in 2024.

The Group's long term track record of outperforming the markets we serve is based on our scale, global footprint, innovation, strong digital platform and technical support capabilities, all of which are becoming more relevant to customers and supportive of our revenue growth ambitions. We expect these growth drivers to be augmented by a gradual market recovery and by continued investment in sustainability and operational efficiency which together give us confidence in delivering strong profit growth and cash generation over the medium term.

Commenting on the results Rajiv Sharma, Group Chief Executive, said:
"There is much to be confident about in Coats' trading performance in the year. Against the backdrop of widespread industry destocking, we gained market share, grew our margin and our adjusted free cash flow. We have also seen that the consumer in general has remained resilient in these challenging markets, albeit with variation by territory.

Encouragingly, as the year progressed sales trends improved, in part due to the timing of the commencement of the current destocking cycle last year. Second half organic revenue was 10% lower compared to a 19% decline in the first half. This improving H2 trend was driven by Apparel, where there is evidence that customer inventory levels are normalising. Within this result, we remain the clear global market leader in 100% recycled thread, reflected in increased revenue of 44% at constant currency, despite lower volumes across the industry.

Our margin increased 160bps to 16.7% (2022: 15.1%) and we achieved our 2024 17% margin target in the second half of 2023, one year ahead of plan. This strong performance, despite the market conditions, was in part driven by savings from our strategic projects, as well as our acquisition-related synergy activities, and supplemented by a rigorous focus on cost control.

We are particularly pleased with our strong cash generation. We increased our adjusted free cash flow to $131 million in the year, reflecting tight cash management and well-managed working capital.

Our leadership position in industrial threads and footwear components, when combined with our investment in innovation and sustainably-sourced and manufactured products, positions us well to grow our revenue and margin and deliver ongoing strong cash generation in line with our strategy."

[1.] Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 14. Constant Exchange Rate (CER) metrics are 2022 results restated at 2023 exchange rates. Organic figures are results on a CER basis, and only includes like-for-like contributions from Texon and Rhenoflex post their respective acquisition dates.

2. Reported metrics refer to values contained in the IFRS column of the primary financial statements in either the current or comparative period.
3. Leverage calculated on a frozen GAAP basis and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt. See note 14b for details.
4. Restated to reflect the results of the EMEA Zips business, divested in 2023, as a discontinued operation. This has resulted in a reduction in previously reported 2022 revenues of $46 million and $2 million adjusted EBIT.
5. From continuing operations.
6. EBIT (Earnings before interest and tax) relates to Operating Profit as shown on the face of the P/L.
7. Total dividend per share 2.80 cents.

Conference Call

Coats Management will present its full year results in a webcast at 10.00 GMT today (Thursday, 7 March 2024). The webcast can be accessed via www.coats.com/investors/fy2023. The webcast will also be made available in archive form on www.coats.com.

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About Coats Group plc

Coats is a world leader in thread manufacturing and structural components for apparel and footwear, as well as an innovative pioneer in performance materials. These critical solutions are used to create a wide range of products, including ones that provide safety and protection for people, data and the environment. Headquartered in the UK, Coats is a FTSE250 company and a FTSE4Good Index constituent. Revenue in 2023 was $1.4 billion.

Trusted by the world's leading companies to deliver crucial, innovative, and sustainable solutions, Coats provides value-adding products including apparel, accessory and footwear threads, structural footwear components, fabrics, yarns and software applications. Customer partners include companies from the apparel, footwear, automotive, telecoms, personal protection, and outdoor goods industries.

With a proud heritage dating back more than 250 years and spirit of evolution to constantly stay ahead of changing market needs, Coats has operations across some 50 countries with a permanent workforce of more than 15,000, serving its customers worldwide.

Coats connects talent, textiles, and technology, to make a better and more sustainable world. Worldwide, there are four dedicated Coats Innovation Hubs, where experts collaborate with partners to create the materials and products of tomorrow. It participates in the UN Global Compact and is committed to Science Based sustainability targets for 2030 and beyond, with an aspiration of achieving net-zero by 2050. Coats is also committed to achieving its goals in Diversity, Equity & Inclusion, workplace health & safety, employee & community wellbeing, and supplier social performance. To find out more about Coats visit www.coats.com.

Cautionary statement

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

Group Chief Executive's review

Purpose and Strategy

Coats is the world's leading industrial thread and footwear components company. Our purpose is to connect talent, textiles and technology to make a better and more sustainable world. Our strategy is to accelerate profitable sales growth by leveraging innovation, sustainability, digital technologies and our global scale to create world class products and services, delivering value to our stakeholders.

2023 Full Year Results Overview

Introduction

We are proud that our 2023 financial performance has delivered many positives, despite a challenging market back drop. We are also proud to have been included in the list of the top 25 World's Best Workplaces by Fortune and Great Place to Work during the year, which is based on an assessment of a range of employee-related factors and attributes.

Reported revenue was 9% lower, in a year that saw widespread industry destocking. Group organic revenue was 14% lower, including like-for-like contributions from Texon and Rhenoflex post their respective acquisition dates. This was an improving trend compared to the first half performance, which was 19% lower on an organic basis. Within this destocking cycle, which was brought about by the impacts from post-COVID supply chain disruption, the consumer has continued to be resilient.

The improving H2 organic trend was driven by Apparel (organic revenue 12% lower in the full year; H1 20% lower) where there is evidence that the anticipated gradual market recovery is underway as customer inventory levels normalise. Destocking commenced later in Footwear, and here the recovery is lagging that of Apparel (organic revenue 16% lower in the full year; H1 23% lower). Performance Materials (organic revenue 17% lower in the full year; H1 14% lower) experienced a lower level of cyclical destocking than Apparel and Footwear. However, it was adversely impacted by customer insourcing of production and previously disclosed customer phasing issues in some US end markets.

While we cannot control the industry backdrop, we are extremely pleased with our continued ability to gain market share. In Apparel we estimate our global market share grew in the year to c.25% (2022: c.23%), an increase in share of c.200bps. In Footwear we estimate our global market share also grew by c.200bps to c.27% (2022: c.25%), with both footwear threads and structural components contributing. Performance Materials offers specialist products across multiple end markets and delivered significant new contract wins in the year, in particular with premium automative OEMs and tier one suppliers. These market share gains across the Group are testament to the strategy we have been pursuing. Our global presence, leadership positions, quality products, flexibility and responsiveness to customers enables us to align ourselves with many of the fastest-growing global brands. This means we can deepen existing relationships, as well as grow our customer portfolio. These brands benefit from our efficient digital platform and technical support capabilities, as well as our ongoing investment in innovation, and a growing portfolio of sustainable products. Our focus on making our own operations sustainable gives brands added confidence to do business with us. This is proving to be a winning formula.

We have also worked hard to deliver further savings in our operations, and we have produced another strong performance. In the face of significantly lower volumes, our adjusted EBIT margin for the full year increased 160bps to 16.7% (2022: 15.1%). We are pleased to have achieved our 2024 17% Group adjusted EBIT margin target in the second half of 2023, one year ahead of plan. As a result, adjusted EBIT was maintained at $233 million (2022: $233 million), despite the significant revenue reduction. The outstanding margin performance was driven in part by savings from our strategic projects, as well as our acquisition-related synergy activities. Our strategic projects delivered accelerated in-year savings of $37 million, taking the cumulative total to $57 million. We continue to expect to deliver cumulative strategic project savings of $70 million in 2024, in line with our guidance. Our acquisition-related synergies have delivered a total of $16 million of synergies by the end of the year (annualised $19 million), well ahead of our pre-acquisition expectations ($11 million in 2024). Away from these projects, our focus on good cost control and driving day-to-day savings has been constant, including the delivery of significant procurement savings, and this has also contributed to the strong margin. Reported EBIT was $184 million (2022: $181 million), which is after exceptional and acquisition-related items largely in relation to the execution of our strategic projects and our 2022 Footwear acquisitions.

We have also maintained an effective pricing strategy, adapting to market conditions as overall inflation rates have begun to reduce. This has helped us deliver both market share gains and margin enhancement. Input costs have moderated in some areas, including lower raw material prices and freight, and we will continue to adapt our pricing strategy accordingly. Customer loyalty is linked to the quality and differentiation of our products, our high levels of customer service and, in some cases, by the degree with which we are integrated with customer systems and processes.

As we had hoped, we are also starting to see success from the cross-selling of our enhanced range of Footwear capabilities to customers, following the 2022 acquisitions. This bodes well for future growth in this division. We continue to see a number of opportunities to be a ‘one-stop shop’ for our customers’ needs.

Our focus on margins also helped us deliver strong cash generation. We delivered increased adjusted free cash flow in the year of $131 million (2022: $114 million), reflecting tight cash management, including well controlled working capital. We ended the year with reduced net debt (excluding lease liabilities) of $384 million (2022: $394 million), and leverage at 1.5x net debt/EBITDA. This continues to be in the middle of our target range of 1-2x net debt/EBITDA.

In December 2023, we activated the agreed “off trigger” mechanism to suspend deficit repair payments for our UK defined benefit pension scheme, following a one-off £10 million payment. As a result, 2024 cash generation will include a £2 million per month tailwind, while deficit repair payments remain switched off, resulting in a c.$30 million cash flow benefit for the business over a full year. We continue to work towards fully de-risking the UK pension scheme over the medium term.

Strategic Projects
Our strategic projects were announced in March 2022 to optimise our footprint, lower our cost base and deliver operating efficiencies, as well as mitigate structural labour availability issues in the US. In part, our success in driving these projects forward and accelerating the delivery of savings has contributed to the strength of our margin during a period of industry-wide volume headwinds, and has put us in an excellent position to benefit from market recovery.

During 2023, we accelerated delivery of savings from these projects with $37 million achieved in the year, amounting to a total of $57 million of savings since 2022. We continue to expect to deliver total savings of $70 million by 2024. We now expect to deliver these savings for $35-40 million, considerably less than the previous guidance of $50 million cash costs (cumulative cash costs to date of $26 million, net of $11 million property proceeds).

During the year, our initiatives continued in Performance Materials’ US and Mexico operations to optimise our footprint, deliver operating efficiencies and mitigate US structural labour availability issues. Following on from the opening of our new, Mexican state-of-the-art facility at Huamantla towards the end of 2022, and investment in our existing site at Orizaba in 2023, our second new plant at Toluca, Mexico commenced pilot production towards the end of the year. Production at this site will increase gradually during 2024. With production and operations being transferred progressively from the US, we have also been reducing and consolidating our US footprint from five sites to two, and this process is continuing in 2024.

The other major focus of our strategic projects has been the transformation of our Asian operations, with a particular focus on China and India. This project has optimised our footprint and efficiency in our long-established Indian operations, while bringing a greater focus to the increasingly important domestic market in China, where there are opportunities with local brands. In India, work has been undertaken to consolidate warehouse and office space, with a reduction in headcount enhancing efficiency. In China, we have reorganised the Shenzhen facility, improved its lay out and reduced headcount. The outsourcing of zip production in China was also completed before the end of the year, as expected. Finally, we have commenced the consolidation of our under-utilised UK-based footwear production site into our existing site in Indonesia. With increasing numbers of customers setting-up in-country, this will move us closer to customers and lower production, energy and freight costs, as well as reduce CO2e emissions.

Alongside our strategic project footprint actions, we have continued to review our overall portfolio to ensure we remain focused on the most attractive markets, where we have leading positions. As part of this initiative, we divested the small operations in Madagascar and Mauritius in January 2023, as well as completing the divestment of our European Zips business on 31 August 2023, for a cash consideration of around $1 million on a debt free basis.

Footwear Acquisitions

Our 2022 acquisitions of Texon and Rhenoflex, combined with our existing footwear thread business, has made us the leading global supplier of threads and structural components to the footwear market.

Not only do we have a strong market position with the benefits of scale, but we also have a focus on fast-growing sports and athleisure brands which attract premium pricing. Our brand-specified positions have considerable longevity, typically lasting through the life of the product. As described in more detail below, our Footwear business – consistent with the predecessor brands – has a focus on innovation and sustainability, with a leading portfolio of sustainable products. This also enables growth ahead of the market.

One of the many attractions of combining these businesses has been the potential to cross-sell our enhanced range of products to customers, with whom we have longstanding relationships. We are now beginning to see the initial benefits of our cross-selling efforts. For example, we have succeeded in adding structural components to a well-known US performance brand's footwear product, where we already supply thread. In addition, we have achieved similar success with two leading Chinese brands. We have also 'upsold' our Rhenoprint,™ sustainable structural component process to a mid-market global sports wear retailer, who is an existing structural component customer.

Our Footwear scale, position and exciting range of products enabled us to increase our market share in the year despite lower volumes across the industry. This positions us well for when the market recovers.

Our cross-selling and market share gains have been achieved while we have been focusing on completing the initial phase of business integration. At the time of acquisition, we expected to deliver $11 million of annualised cost savings in 2024 from combining the businesses. These savings principally relate to the consolidation of duplicated roles and back-office functions, and the delivery of procurement savings. We have delivered a total of $16 million of savings by the end of the year (annualised $19 million), well ahead of our plan. Having increased the adjusted EBIT margin from

12% pre-acquisition to a 16% margin in 2023, we have achieved a margin that is consistent with our pre-acquisition business case, despite much lower volumes in the market during the year. This outcome is the result of the actions we have taken, including integration synergies, pricing and mix-effects as well as continuous improvement activities.

Strategic Enablers: Innovation, Sustainability and Digital

Our strategic enablers are Innovation, Sustainability and Digital and these underpin our strategy to accelerate profitable sales growth while delivering sustainable value to our stakeholders. We have continued to progress our enablers during the year, with pleasing results.

Innovation

Our innovation drives product differentiation and profitable growth. It is carried out in collaboration with customers and derived from our long-term technology roadmaps. The primary focus of our innovation is sustainability, most notably around the adoption of products made from recycled products and bio-materials. However, it also encompasses more efficient production techniques, increasingly lightweight products with enhanced protective characteristics, and end-of-life recycling technologies.

Examples of our innovation, which have been recently launched, include the following:

- Verde - a bio-based and biodegradable solution for environmentally conscious designers. It is made from sustainably sourced wood pulp, plant-based binders and natural pigments. Being lightweight, tear resistant and easy to handle, this versatile material can be used in a wide variety of fashion and homeware accessories, and is vegan-friendly.

- Cyclea - a circular upcycling process for taking leather scraps from the production process and re-using them in new products, to minimise waste. This is a first for the industry and has application in the luxury goods sector, in particular.

- EcoRegen - a range of 100% lyocell threads made from sustainably sourced wood pulp, for a range of apparel applications. It is fully biodegradable and compostable due to its cellulosic origin. It demonstrates outstanding comfort characteristics as well as a reduced carbon footprint, dry and wet strength and superior elongation characteristics.

- FlamePro™ High Visibility - an inherently flame resistant, high-visibility fabric that is one of the lightest protective fabrics of its kind, making it easy and comfortable to wear in a work environment. The product includes renewable fibres and does not need dyeing, making it more sustainable than any comparable product on the market today.

We manage our innovation strategy for the long term, with individual product developments often multi-year from inception to launch. We have continued to invest in innovation through the current destocking cycle, with ongoing investment meaning we continue to have a product portfolio that is well-positioned to benefit from our evolving markets, as consumer and customer requirements change.

Sustainability

Sustainability is at the very heart of our business. It encompasses the products we create and sell through innovation, as well as how we manage our operations. Our investment in sustainability is a compelling proposition to the increasing number of brands who demand sustainable products, driven by consumer sentiment. These brands also want to align with a supply chain having compliant, sustainable operations. This investment therefore helps us increase our market share over time, as well as reduce our costs, as we become more efficient and use less resources.

We have set medium term targets to help us reach our Net Zero commitment by 2050, with our Net Zero targets submitted for SBTi approval during 2023. Our Net Zero commitment will be achieved initially through our 2030 SBTi goals, which are to reduce our scope 1 and 2 emissions by over 46%, with scope 3 reduced by 33% over the same time frame. By 2030 we also aim to have 70% of our global energy consumption from renewables and all our products sourced sustainably, eliminating the use of all product made from new, oil-extracted materials. To achieve this we are adopting a circularity approach, creating products and packaging solutions that enable recycling and reuse, within our own operations and across the wider garment industry.

In March 2023, we announced new and challenging interim sustainability targets for 2026, using an 2022 baseline[1]. The seven targets reflect the ongoing focus on our people, water, emissions and waste reduction categories, as well as product innovation and materials transition. We have improved our performance against these targets during 2023, in relation to the prior year baseline. In particular, we have met our 2026 target for reduction in scope 1 and 2 CO_2e emissions, albeit this was impacted by lower production volumes during the year.

Materials transition is an important metric, as it enhances our revenue growth and reduces our Scope 3 CO_2e emissions. In line with GHG Protocols, we have changed our disclosure approach for the first time from recycled sales revenue to a materials transition approach, based on the volume of primary raw materials that we purchase. This has expanded our disclosure to cover more sustainable end-use categories for sewing thread, as well as footwear component materials. During the year, the proportion of sustainable materials within our overall production increased to 29%, (2022: 25%) driven by increased recycled polyester fibres and filaments in our thread products. Our target is to transition to 60% of sustainable primary raw materials by 2026, and 100% by 2030. We remain the clear global market leader in the sales of 100% recycled thread products and our 2023 revenue increased by 44% to $172 million at constant currency, in a year of lower production volumes across the industry.

During 2023 we inaugurated our new Sustainability Hub in Madurai, India. This unit has a full range of upstream processing equipment that will allow it to take new, more sustainable, raw material types and process them into innovative threads. The Hub has a number of partnerships already in place, with more to come, working closely with established companies and start-ups that have innovative material solutions that meet our criteria.

The Madurai Sustainability Hub has built a strong team of sustainability and innovation experts and professionals and recruited and trained local talent from various fields, such as textile engineering, chemistry, biotechnology, design, marketing, and management. It collaborates with external partners, such as universities, research institutes, NGOs, and industry associations, to access the latest knowledge and technologies. The Hub works closely with our established Innovation Hub in Shenzhen, China, which takes threads developed in Madurai and turns them into prototype finished products. Many of the developments under way relate to innovative bio-materials, but work is also being undertaken on recycled or more sustainable plastic-based materials.

Reflecting the progress we made driving sustainability during 2022, we received an improved Carbon Disclosure Project (CDP) Climate Change rating in February 2024 of B (previously B-). Our CDP Water rating remained at B.

We are proud to have been included in the list of the top 25 World's Best Workplaces by Fortune and Great Place to Work (GPTW) in November 2023. To put this achievement into context, we are one of only two UK-listed companies to have received this accolade in 2023. GPTW selects companies based on their dedication to creating exceptional workplace cultures, prioritising people, fostering a culture of trust and empowering colleagues worldwide to achieve their full potential.

Digital

Our digital offering is another differentiator for the business. We are able to invest in our digital operations by virtue of our scale, and this investment gives our customers a seamless service from

[1] 2022 baseline restated to reflect divestments. Effluent Compliance metric now measured on the percentage of tested effluent analytes meeting the specification limits under ZDHC Guidelines; a standard set above local regulatory requirements.

our operations around the world. Our cloud-based digital backbone gives us greater visibility of data and enables greater operational efficiency for us and for our customers, with business conducted at the touch of a button. As our operations and those of our customers become more integrated, it increases customer retention and loyalty.

We have migrated 100% of enabled customers to our ShopCoats digital customer ecosystem. This offers highly efficient automated processes, including ordering, sample production, processing and status management capabilities. From its inception in 2021 to the end of the year, the ShopCoats digital system has processed just under $1.3bn of customer orders, with the number of orders received through ShopCoats increasing over time.

Our Coats Digital business, part of Apparel, sells software to third party customers, with an overarching theme of making operations more efficient. With a growing focus on operational efficiency, interest in our software products is also increasing. The business had an excellent year, gaining more than 30 new customers and increasing its recurring software-as-a-service (SaaS) based revenue.

Board Update

At the upcoming AGM, the Board is proposing a resolution to re-appoint David Gosnell, Chair of the Group, as a Director of the Company. The Board has concluded unanimously that a three year extension to David's tenure as Chair to 2027, is in the best interests of the Company and shareholders. This will be subject to his re-election at the 2024 AGM and annually thereafter. Such an extension would provide continuity, enabling David to oversee the current period of significant development to conclusion. This includes completion of the integration of the major 2022 footwear acquisitions and the Group's strategic projects, as well as further potential de-risking of the pension scheme. The Board is also going through a period of evolution, with two recent Non-Executive Director appointments and the forthcoming Senior Independent Director, and Audit Committee Chair transitions, as Nicholas Bull steps down from the Board at the 2024 AGM.

David was appointed Chair in 2021. However, as he has served as a Non-Executive Director from 2015, this resolution would extend his Board appointment beyond the usual nine year term. The Board considers this to be compliant with provision 19 of the Code which allows an extension for a limited time where the Chair was an existing director, subject to a clear explanation being provided. The Board considers that David continues to demonstrate objective judgment and promotes constructive challenge amongst Board members. In addition, Nicholas Bull and Steve Murray, in his role as incoming Senior Independent Director, directly consulted with shareholders holding around 70% of the Company's shares at 31 January 2024 to explain the rationale for this proposal and seek their views. The shareholders indicated clear support for David continuing as Chair, with the majority supportive of a three year extension, subject to annual re-election at the AGM.

Dividend

Notwithstanding the widespread industry destocking in the year we delivered a good financial performance, including an increased margin and strong levels of free cash flow. Including further progress made on pension schemes during the year, the Group's Balance Sheet continues to be in a strong position. We are well-positioned in our markets; we continue to gain market share, and we see further growth and margin opportunities as the market gradually recovers.

With these factors in mind, the Board has decided to propose a final dividend of 1.99 cents per share, a 15% increase on the prior year. This equates to a full year dividend of 2.80 cents per share, also an increase of 15%. Subject to approval at the AGM, the final dividend will be paid on 30 May 2024 to ordinary shareholders on the register at 3 May 2024, with an ex-dividend date of 2 May 2024.

The Board will continue to review the level of dividend payment to shareholders, on the basis of the performance of the business and its longer-term potential, including margin and earnings progression, as well as cash generation, within the context of our capital allocation policy.

Operating Review

Continuing operations	FY 2023 $m	FY 2022[4] $m	FY 2022 CER[1] $m	Inc / (dec) %	CER[1] inc / (dec) %	Organic[3] inc / (dec) %
Revenue						
By division						
Apparel	689	818	784	-16%	-12%	-12%
Footwear	368	300	298	23%	24%	-16%
Performance Materials	336	420	406	-20%	-17%	-17%
Total	**1,394**	**1,538**	**1,488**	**-9%**	**-6%**	**-14%**
By region						
Asia	823	912	890	-10%	-8%	-13%
Americas	246	341	340	-28%	-28%	-28%
EMEA	325	285	257	14%	26%	-2%
Total	**1,394**	**1,538**	**1,488**	**-9%**	**-6%**	**-14%**
Adjusted EBIT [2, 5]						
By division						
Apparel	120	130	125	-8%	-4%	-4%
Footwear	84	68	68	23%	24%	-1%
Performance Materials	29	34	32	-15%	-10%	-10%
Total adjusted EBIT	**233**	**233**	**225**	**0%**	**4%**	**-4%**
Exceptional and acquisition related items	-49	-52				
EBIT[5]	**184**	**181**				
Adjusted EBIT margin [2]						
By division						
Apparel	17.5%	16.0%	16.0%	150 bps	150 bps	150 bps
Footwear	22.8%	22.7%	22.7%	10 bps	10 bps	430 bps
Performance Materials	8.6%	8.1%	7.9%	50 bps	60 bps	60 bps
Total	**16.7%**	**15.1%**	**15.1%**	**160 bps**	**160 bps**	**190 bps**

1 *Constant Exchange Rate (CER) are 2022 results restated at 2023 exchange rates.*
2 *On an adjusted basis which excludes exceptional and acquisition-related items.*
3 *Organic figures are results on a CER basis, and only includes like-for-like contributions from Texon and Rhenoflex post their respective acquisition dates.*
4 *2022 restated for the disposal of the European Zips business, which is now shown as a discontinued operation. This has resulted in a reduction in previously reported 2022 revenues of $46 million and $2 million adjusted EBIT.*
5 *EBIT (Earnings before interest and tax) relates to Operating Profit as shown on the face of the P/L.*

2023 Operating Results Overview

Group revenue of $1,394 million decreased 9% on a reported basis, 6% on a CER basis, and 14% on an organic basis. There was an improving trend through the year with H1 organic revenues down 19% vs 2022, and H2 revenues down 10%. The organic revenue decline for the full year, against a very strong prior year comparator, reflects the continuation of the widespread industry destocking in Apparel and Footwear. In addition, there was the previously disclosed customer contract in-sourcing and certain customer phasing issues in US end markets in Performance Materials. The improving

Group trend in the second half of the year was primarily driven by signs of the anticipated gradual recovery in Apparel. Destocking commenced later in Footwear, and here the recovery is lagging that of Apparel.

Group adjusted EBIT of $233 million increased by 4% on a CER basis (2022: $225 million CER), despite market headwinds on the top line, with adjusted EBIT margins up 160bps to 16.7% (2022: 15.1%). We are pleased that our 2024 Group adjusted EBIT margin target of 17% was delivered during the second half of the year. The year-on-year increase in adjusted EBIT margins reflect the impact of lower volumes due to market conditions being more than offset by some input cost deflation (whilst maintaining pricing) and the ongoing accelerated benefits from strategic projects and integration synergies, as well as strict cost discipline. On a reported basis EBIT was $184 million (2022: $181 million), after $49 million of exceptional and acquisition-related items (2022: $52 million) which predominantly related to the execution of our strategic projects and 2022 footwear acquisitions.

Adjusted earnings per share ('EPS') were unchanged at 8.0 cents (2022: 8.0 cents) despite market conditions and rising interest rates. As reported above, there was a significant year-on-year increase in the Group adjusted EBIT margin, alongside tight management of our interest costs and tax charge, with a reduction in minority interest payments. Reported EPS of 5.2 cents (2022: 4.8 cents) was 7% higher, also including the impact of exceptional and acquisition-related items.

Our Group cash performance remained strong with adjusted free cash flow of $131 million (2022: $114 million), as we focused on margins and cash generation. Our Balance Sheet remains in a strong position, with net debt (excluding lease liabilities) of $384 million (2022: $394 million), with leverage of 1.5x (2022: 1.4x on a proforma basis).

Revised Divisional Reporting from 1 January 2023
As a result of the 2022 acquisitions of Texon and Rhenoflex, our new organisational and reporting structure, effective 1 January 2023, is comprised of three divisions (segments): Apparel, Footwear and Performance Materials. The Footwear division consists of the existing Coats footwear thread business (formerly part of Apparel & Footwear), and the acquired footwear components businesses, Texon and Rhenoflex.

As announced at our 2022 Capital Markets Day, the medium-term sales growth CAGR for the new operating divisions are anticipated to be 3-4% for Apparel, c.8% for Footwear, and 6-9% for Performance Materials, resulting in medium-term Group growth of c.6%. The target for the Group 2024 adjusted EBIT margin is c.17%, comprising 15-16% for Apparel, >20% for Footwear, and 13-14% for Performance Materials. As noted above, we are pleased to report that we have already delivered our 2024 Group adjusted EBIT margin target during the second half of 2023.

Apparel
Coats is the global market leader in supplying premium sewing thread to the Apparel industries. We are the trusted value-adding partner, providing critical supply chain components and services, and our portfolio of world-class products and services exist to serve the needs and requirements of our customers and brand owners.

Revenue of $689 million (2022: $818 million) was down 12% on a CER basis (16% reported). As anticipated, revenue was lower year-on-year, against a very strong prior year comparator, and reflected the continuation of widespread industry destocking, after a surge of post-COVID inventory restocking in H1 2022, as well as buffer-buying due to supply chain disruption. We have seen improving trends through the year as it is clear the destocking period is largely over, as customer inventory levels normalise, with early but encouraging order trends now evident.

Despite challenging market conditions, the Apparel business benefited from market share gains, with an increase in our estimated market share by c.200bps to c.25%. We were also able to maintain pricing, and leverage moderating input costs in some areas. We continue to be very well-positioned in our markets, as the global partner of choice for our customers, with market-leading product ranges and customer service, and a clear leadership position in innovation and sustainability.

Our proactive procurement strategy has put us in a good position to benefit from raw material price moderation. The focus on material transition to recycled products has helped to scale our recycled product offering and minimise cost premiums associated with these products. This, alongside our agile supply chain network, has enabled us to help our customers and brands achieve their sustainability goals, helping us take market share and maintain prices.

With market conditions expected to continue to gradually improve, our strong market position, global presence, differentiation and focus on leading brands provide further opportunities for growth and market share gains.

Adjusted EBIT of $120 million (2022: $130 million) decreased 4% vs the prior year on a CER basis, significantly less than the overall revenue decline. The adjusted EBIT margin was 150bps higher at 17.5% on a CER basis (2022: 16.0%), already slightly ahead of our 2024 margin target. Savings from our self-help actions, including strategic projects, and procurement benefits more than offset the adverse impact from lower sales volumes.

Footwear

We are the trusted partner to the footwear industry, shaping the future of footwear for better performance through sustainable and innovative solutions. The combination of Coats, Texon and Rhenoflex makes us a global champion with a portfolio of highly engineered products with strong brand component specification, primarily targeted at the attractive athleisure, performance, and sports markets.

Despite continued industry destocking, Footwear benefited from market share gains. We increased our estimated market share by c.200bps to c.27% for threads and structural components combined. Customer pricing also remained robust, even as some input costs began to moderate. We have been realising the benefits of the Texon and Rhenoflex acquisitions, with commercial opportunities being pursued. In challenging market conditions, our leading global position has allowed us to leverage the strength of our customer relationships and market leading product ranges.

Footwear revenue increased 24% to $368 million (2022: $300 million) on a CER basis (23% reported), which includes contributions from Texon and Rhenoflex post their respective acquisition dates in July and August 2022. This was against a very strong prior year comparator and included an adverse impact from the continuation of widespread industry destocking that commenced in Q4 2022. Excluding the pre-acquisition contribution from Texon and Rhenoflex, organic revenue decreased 16%. Encouragingly, we believe the industry destocking cycle is largely complete, as customer inventory levels normalise, and we expect to see signs of a gradual volume recovery during 2024, although lagging the Apparel recovery.

Despite the market headwinds, we continued to deliver share gains and programme wins, reflecting our position as a trusted partner with our global accounts programme, in which we dedicate resources to key brands and retailers.

The athleisure, performance and sports markets within Footwear continue to be attractive. Supplier consolidation and nearshoring, including China de-risking, are becoming prominent trends, with brands also placing increasing emphasis on sustainability and innovation. With market conditions expected to gradually improve in 2024, these important, longer-term trends provide Footwear with further opportunities for growth and share gain.

Adjusted EBIT was $84 million with adjusted EBIT margins up 10bps to 22.8% despite significantly lower sales volumes and the initial dilutive impact of the acquisitions. As a result, our 2024 margin target for the Footwear Division has been reached, a year earlier than planned. The acquisitions of Texon and Rhenoflex remain on track to be accretive, post-synergies. On a proforma basis, including the pre-acquisition contribution of the July and August 2022 acquisitions, margins were up 510bps year-on-year. This is as a result of strong commercial delivery in a difficult market environment, pricing benefits being maintained in the context of some lower input costs, the delivery of acquisition-related synergies and general cost discipline. Acquisition integration has so far focused on commercial and general & administrative costs, as well as on procurement, delivering $16 million of efficiency savings by the end of the year ($19 million annualised). This is ahead of our initial guidance ($11 million savings by 2024).

Performance Materials ('PM')

We are experts in the design and supply of a diverse range of technical products that serve a variety of strategic end use markets. Building on over 250 years of leadership in thread, we incorporate specific design features to provide highly engineered solutions for our customers. The division operates across Personal Protection, Composites and Performance Threads. Personal Protection offers multi-hazard industrial applications for industrial, energy, firefighting and military wear. Composites provides products and solutions for fibre optic cables and oil & gas piping sectors, and light weighting solutions for automotive components. Performance Threads has applications in a range of sewn products including safety-critical automotive airbags and seat belts, outdoor goods, household products like bedding and furniture, hygiene-sensitive consumer goods like feminine hygiene products and tea bags.

The Group discloses three PM sub-segments: Personal Protection (38% of 2023 divisional revenue), Composites (18% of 2023 divisional revenue) and Performance Thread (44% of 2023 divisional revenue). Medium-term revenue growth expected for each sub-segment are high single digits for Personal Protection, low double-digits for Composites, and growth in line with global GDP for Performance Threads. The overall medium-term growth target for the division is a 6-9% growth CAGR.

PM revenue declined 17% to $336 million in 2023 (2022: $420 million) on an organic and CER basis (20% on a reported basis), with Personal Protection decreasing by 25% on a CER basis, Composites decreasing by 21% (CER) and Performance Threads lower by 6% (CER). The largest factor driving the decrease was the insourcing of production by a large US customer in personal protection, which resulted in $30 million lower revenue compared to 2022. There was previously disclosed customer phasing issues in some US markets as well as destocking at some US telecommunication customers in Composites.

Despite market conditions, there were significant new customer wins across PM's sub-segments. These included gains at two large US Personal Protection manufacturers and a global agreement with a large cable manufacturer in the Composites subsegment. Within Performance Threads there were new contract wins at two premium automotive OEMs and a tier 1 supplier, as well as at a global feminine hygiene product manufacturer.

Adjusted EBIT was 10% lower vs 2022 on an organic and CER basis at $29 million (2022: $34 million), reflecting the significantly lower sales volumes. However, adjusted EBIT margins increased on an organic and CER basis by 60 bps to 8.6% (2022: 8.1%) due to the contribution of strategic project savings, recovery in EMEA margins (following a temporary supply issue last year), and self-help actions. PM margins included c.$5 million of duplicate running costs in relation to the US / Mexico plant transitions. Excluding these costs, PM margins were 190bps higher at 10.0%.

Geographical Performance

In line with divisional performance, there was a year-on-year revenue decline on a CER organic basis in all geographic regions, due to the market headwinds. However, there were improving trends in Asia and EMEA during the second half of the year.

Asia revenue, 59% (2022: 59%) of Group, decreased 8% CER to $823 million (2022: $912 million), which included a 5% points contribution from the acquisitions made in H2 2022. All key Asian markets were impacted by the large scale industry destocking in the Apparel and Footwear divisions although, as noted earlier, we are starting to see early encouraging signs of a gradual recovery within Apparel. Our Americas revenue, 18% (2022: 22%) of Group, decreased 28% CER to $246 million (2022: $341 million). All key markets were impacted by the challenging market conditions in 2023, although with comparatively more solid performances in Colombia and Mexico. The US was also impacted by customer insourcing of a significant PM contract in H2 2022, and certain customer phasing issues in US end markets in Performance Materials.

In EMEA, 23% (2022: 19%) of Group, revenue increased 26% CER to $325 million (2022: $285 million), which included a 28% contribution from the Texon and Rhenoflex acquisitions. Excluding acquisitions, performance was driven by positive momentum in PM in telecommunication composites and transportation, as fibre optic sales remained robust in EMEA. The Organic revenue decline of 2% also benefited from the weakening Turkish Lira, as we continue to price largely in US Dollars, and pass on the significant local currency devaluation.

Financial Review

Revenue
Group revenue from continuing operations decreased 9% on a reported basis and 6% on a CER basis. On an organic basis revenue decreased 14%, which includes like-for-like contributions from Texon and Rhenoflex post their respective acquisition dates. All commentary below is on an organic basis unless otherwise stated.

Operating Profit
At a Group level, adjusted EBIT from continuing operations was maintained year-on-year at $233 million and adjusted EBIT margins increased 160bps to 16.7%, despite ongoing market headwinds. The table sets out the movement in adjusted EBIT during the year.

	$m	Margin %
2022 adjusted EBIT	**233**	**15.1%**
Volumes impact (direct and indirect)	(106)	
Price/mix	18	
Raw material deflation	19	
Freight deflation	6	
Other cost inflation (e.g. labour, energy)	(31)	
Productivity benefits (manufacturing and sourcing)	33	
Strategic projects savings	37	
Other SD&A savings	8	
Others (e.g. FX)	1	
Texon and Rhenoflex synergies	15	
2023 adjusted EBIT	**233**	**16.7%**
Exceptional and acquisition related items	(49)	
2023 reported EBIT	**184**	

There were significant volume headwinds as a result of widespread industry destocking in the Apparel and Footwear businesses, as well as the adverse impact of the customer contract in-sourcing and end market phasing impacts in the US in Performance Materials. 2023 performance is also measured against very strong prior year revenue comparators, as there was a continued post-COVID demand surge (driving supply chain overstocking) particularly during the first half of 2022. From the second half of 2022, as anticipated, there was a slow-down in demand due to destocking in Apparel and then Footwear. The direct and indirect volume impact of this, together with the very strong 2022 comparators (particularly in H1), resulted in significant direct and indirect volume headwinds. These headwinds have been gradually receding in the second half in Apparel, with evidence that we are largely through the widespread destocking in our markets of the last c.18 months.

Our proactive approach to pricing during 2021 and 2022, when inflationary pressures accelerated at unprecedented levels, has meant that we have continued to see roll-over pricing gains year-on-year, although the impact of pricing has been broadly neutral in the second half. We have started to see an easing of some key raw material input and freight costs during the latter part of 2022, and this has continued through 2023. The favourable impact from this has acted as a partial offset to some of the volume impacts in the year.

Selling, Distribution and Administration (SD&A) costs are below last year, despite ongoing inflationary impacts in some areas, as we controlled our costs in challenging market conditions. We have also benefited from a further $37 million of efficiency savings (total savings to date are $57 million, including $20 million delivered in 2022), in relation to our strategic projects announced in March 2022, with the expected savings accelerated. Since these projects began, we have increased the total savings we expect to deliver by 2024 to $70 million (from $50 million) through expanding the scope of the projects, with a focus on our Asian operations.

Our 2022 acquisitions, Texon and Rhenoflex, delivered a total of $16 million of synergy benefits by the end of the year ($15 million incremental benefits in 2023). These acquisitions have experienced similar industry destocking headwinds as the wider Apparel and Footwear businesses, and we have delivered accelerated integration synergies in response, as an underpin to performance. Total annualised synergies are $19 million (original expectations of $11 million in 2024).

The Group's adjusted EBIT margins increased by 160bps to 16.7% on a CER basis (2022: 15.1%), with the impact of the year-on-year volume declines being offset by the benefits of controllable factors.

On a reported basis, Group EBIT, including exceptional and acquisition-related items, increased to $184 million (2022: $181 million). A breakdown of these items is provided below. Exceptional and acquisition-related items are not allocated to divisions and, as such, the divisional profitability referred to above is on an adjusted basis.

Foreign exchange
The Group reports in US Dollars and translational currency impacts can arise, as its global footprint generates significant revenue and expenses in a number of other currencies. For the year, this was a headwind of 3% on revenue and adjusted EBIT. As previously announced, these adverse translation impacts were primarily due to the previous adoption of hyperinflation accounting in Turkey which saw significant depreciation towards the end of the half. Aside from the impact of the Turkish Lira, and the resulting volatility of hyperinflation accounting, underlying headwinds were modest and driven primarily by the depreciation of Chinese, Egyptian and Pakistan currencies. At latest exchange rates, we expect a minimal impact on revenue and adjusted EBIT for 2024 (excluding any future hyperinflation impact in Turkey, which cannot be forecasted with accuracy).

Non-operating Results
Adjusted EPS was maintained year-on-year at 8.0 cents (2022: 8.0 cents), despite market headwinds. Within this, adjusted EBIT was unchanged year-on-year at $233 million, at significantly increased margins. Interest costs were slightly lower, despite rising interest rates and increased debt in H2 2022 to fund the Footwear acquisitions. Our effective tax rate reduced to 29% (2022: 30%), and there were lower minority interest payments. Reported EPS of 5.2 cents (2022: 4.8 cents) was 7% higher year-on-year, after exceptional and acquisition related items.

Net finance costs decreased slightly to $29 million (pre-exceptional) (2022: $30 million), despite rising interest rates and the full year impact of the 2022 acquisition-related debt.

Key increases to the interest charge were:

- An increase in interest on bank borrowings due to increasing rates on floating debt of $4 million;
- Additional interest of $8 million on the $240 million acquisition facility taken out in July 2022 to fund the Texon acquisition.

Offsetting this were some significant decreases:

- A $6 million favourable movement on foreign exchange, largely as a result of Sterling strengthening during the period, where we hedge a number of costs and cash flows;
- A $5 million decrease in interest on pension scheme liabilities, as a result of an IAS19 pension surplus at 31 December 2022.

The adjusted taxation charge for the period was $58 million (2022: $60 million). Excluding the impact of exceptional and acquisition-related items, the effective tax rate on pre-tax profit reduced to 29% (2022: 30%). The reported tax rate was 35% (2022: 37%), after exceptional and acquisition related items.

Profit attributable to minority interests is predominantly related to Coats' operations in Vietnam and Bangladesh, in which it has controlling interests. These primarily operate in Apparel and Footwear markets and were exposed to the wider industry destocking in the year. Profit attributable to minority interests decreased to $18 million (2022: $22 million).

Exceptional and Acquisition-related Items
Net exceptional and acquisition-related items before taxation were $49 million (2022: $53 million). These include strategic project costs of $18 million (net of a $6 million property profit), and other acquisition-related items of $21 million.

Strategic project costs of $18 million relate to the strategic initiatives commenced during 2022; and primarily consist of severance costs of $11 million, legal / advisor / closure costs of $7 million, non-cash impairments of $6 million, offset by a profit of $6 million from the sale of property. These costs have supported the acceleration of project benefits, with $37 million of incremental adjusted EBIT delivered in the year (with $57 million incremental savings on the projects to date).

$6 million of costs have been incurred in relation to the delivery of acquisition-related synergies which, as mentioned above, are ahead of expectation, with a total of $16 million of savings now delivered since acquisition ($19 million annualised).

Other acquisition-related items of $21 million consisted of the amortisation charges from the newly recognised intangible assets from the Texon and Rhenoflex acquisitions, and the amortisation of intangible assets acquired with previous acquisitions.

Discontinued operations
On 30 June 2023 the Group entered into an agreement to sell its European Zips business to Aequita, a German family office. The sale was subsequently completed on 31 August 2023.

The exit from the European Zips business was in line with Coats' previously announced strategic initiatives to optimise the Group's portfolio and footprint, and improve the overall cost base efficiency. The results of the European Zips business is presented as a discontinued operation in the consolidated income statement for the year ended 31 December 2023, together with a loss on disposal of $27 million.

Amounts for year ended 31 December 2022 in the consolidated income statement have been represented accordingly to reclassify the results of the European Zips business from continuing operations to discontinued operations. Note 13 provides further details of the sale. This has resulted in a reduction in previously reported 2022 revenues of $46 million and $2 million adjusted EBIT.

Cash flow
The Group delivered strong $131 million (2022: $114 million) adjusted free cash flow from continuing operations, driven by a working capital inflow, in part reflecting a focus on cash generation through the destocking cycle. Adjusted free cash flow is measured before annual pension deficit recovery payments, acquisitions, disposals and dividends, and excludes exceptional items.

We have managed net working capital closely, with a focus on inventory, without compromising service levels. We also continued our disciplined approach to payables and receivables management during the year, as an input to working capital efficiency.

Capital expenditure was $31 million (2022: $34 million), as we continued to maintain a selective approach to investing in growth opportunities, as well as in strategic projects, which will favourably impact long-term returns. We anticipate 2024 full year capital expenditure to remain in the $30-40 million range, as we continue to invest in support of our growth strategy, in productivity and in our environmental performance. However, this level of investment will remain dependent on the demand recovery profile during the year.

Minority dividends of $20 million (2022: $18 million) were paid, as cash was repatriated from those relevant overseas entities to the Group. Tax paid was $61 million (2022: $55 million). Interest paid was $34 million (2022: $25 million) reflective of higher interest rates and the acquisition debt taken out in H2 2022.

The Group delivered an overall free cash inflow of $15 million (2022: $247 million outflow). This primarily reflects the adjusted free cash inflow of $131 million, offset by:

- UK pension deficit repair payments (including administrative expenses) of $49 million, which includes the accelerated £10 million payment made in December to secure the switch off of ongoing contributions;
- Exceptional and acquisition related payments, mainly relating to strategic projects of $13 million;
- Payments to purchase own shares (via our Employee Benefits Trust) to fund management share schemes of $10 million;
- Discontinued operations (EMEA Zips) $5 million;
- Dividend payments of $40 million.

Net debt (excluding lease liabilities) at 31 December 2023 was $384 million (31 December 2022: $394 million). Including lease liabilities, net debt was $471 million (31 December 2022: $500 million).

Pensions and other post-employment benefits
The pre-tax surplus for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS 19 financial reporting basis, was $63 million at 31 December 2023, which was $7 million lower than 31 December 2022 ($70 million surplus). This decrease was primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 31 December 2023 of $102 million (31 December 2022: $118 million). The decrease in the surplus during the year ended 31 December 2023 of $15 million predominantly relates to net actuarial losses of $72 million. This was offset by employer contributions (excluding administrative expenses) of $43 million, a reduction in withholding tax and foreign exchange translation movements.

UK funding update
We continue to maintain strong and collaborative relations with the Scheme Trustees around strategic planning and have established a joint working group between the Company and Trustees to review further opportunities for de-risking the scheme, beyond the significant positive progress that has already taken place. This included the successful partial buy-in transaction with Aviva, representing full insurance of the benefits of c.20% of the scheme liabilities in December 2022.

The Aviva buy-in is consistent with Coats' medium term aspiration of fully insuring the Scheme and removing it from the Group balance sheet, in a cost effective manner.

When the Technical Provisions (funding) deficit for the Scheme was last formally assessed at 31 March 2021, as part of the triennial valuation cycle, it showed a £193 million deficit. As a result of this valuation, future contributions were maintained at the previously agreed levels of £22 million ($27 million) per annum (indexing) up until 2028. The Group agreed to continue to pay the Scheme administrative expenses and levies of around $5 million per annum.

Updates since then have confirmed that the funding deficit has fallen significantly and is now fully funded on a technical provisions basis. This significant improvement has been due to ongoing employer contributions, favourable movements in the market (increasing discount rates) and the de-risking actions that we and the Trustees have taken, for example the buy-in transaction referred to above.

As a result of this significantly improved funding position, and reflective of the collaborative working relationship with the Trustees, in early 2023 we agreed a mechanism to switch off / switch on the regular cash contributions to the scheme based on monthly estimates of the latest funding position. Further to this switch off / switch on agreement and further improvements in the funding position during the year, in December 2023, the Group agreed to pay the scheme a one-off lump sum payment of £10 million ($13 million) to move it into an expected surplus position against the technical provisions funding basis and enable the switch off threshold to be comfortably met.

This agreement will result in a free cash flow benefit of £2 million ($2.5 million) per month while the payments remain switched off. The deficit repair payments will remain switched off so long as the scheme's assets remain above 99% of its technical provisions.

Balance sheet and liquidity
Group net debt (excluding lease liabilities) at 31 December 2023 was $384 million ($471 million including lease liabilities), a reduction on 31 December 2022 ($394 million). This reduction reflects strong and disciplined cash management as noted above, offset by acquisition-related items, ongoing pension deficit repair payments, exceptional cash costs in relation to strategic projects, cash spent on Employee Benefit Trust share purchases and shareholder dividends.
The Texon acquisition, which was completed in July 2022, was funded by a $240 million temporary acquisition facility. As previously announced, in January 2023, we refinanced this acquisition facility via the US Private Placement (USPP) market with $250 million of notes split between 5 and 7 years tenor at highly competitive interest rates (between 5.3% and 5.4%). This maintains our total committed debt facilities at $835 million with well diversified source and tenor; being $360 million revolving credit facility, $225 million of original USPP notes (2024 and 2027 tenors), as well as the new $250 million of USPP notes (2028 and 2030 tenors). The committed headroom on our banking facilities was approximately $315 million at 31 December 2023.

At 31 December 2023, our leverage ratio (net debt to EBITDA; both excluding lease liabilities) was 1.5x (2022: 1.4x on a proforma basis) and remains well within our 3x covenant limit, and towards the middle of our target leverage range of 1-2x. There was also significant headroom on our interest cover covenant at 31 December 2023 which was 8.2x, with a covenant limit of 4x. The covenants are tested twice annually in June and December and monitored throughout the year.

Going concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group and the Company has sufficient resources to continue in operation for the period from the date of this report to 30 June 2025, and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements. Further details of our going concern assessment, financial scenarios and conclusions are set out in note 1.

Coats Group plc

Consolidated income statement

For the year ended 31 December	Notes	Before exceptional and acquisition related items US$m	Exceptional and acquisition related items (see note 3) US$m	2023 Total US$m	Before exceptional and acquisition related items US$m	Exceptional and acquisition related items (see note 3) US$m	2022* Total US$m
Continuing operations							
Revenue		**1,394.2**	**-**	**1,394.2**	1,537.6	-	1,537.6
Cost of sales		**(910.9)**	**(18.2)**	**(929.1)**	(1,049.3)	(9.9)	(1,059.2)
Gross profit		**483.3**	**(18.2)**	**465.1**	488.3	(9.9)	478.4
Distribution costs		**(115.9)**	**(2.6)**	**(118.5)**	(122.0)	(3.8)	(125.8)
Administrative expenses		**(134.0)**	**(34.4)**	**(168.4)**	(133.6)	(39.1)	(172.7)
Other operating income		**-**	**5.8**	**5.8**	-	1.2	1.2
Operating profit		**233.4**	**(49.4)**	**184.0**	232.7	(51.6)	181.1
Share of profits of joint ventures		**1.1**	**-**	**1.1**	1.1	-	1.1
Finance income	**4**	**4.6**	**-**	**4.6**	2.6	-	2.6
Finance costs	**5**	**(33.9)**	**-**	**(33.9)**	(32.3)	(1.1)	(33.4)
Profit before taxation		**205.2**	**(49.4)**	**155.8**	204.1	(52.7)	151.4
Taxation	**6**	**(57.9)**	**2.9**	**(55.0)**	(60.1)	3.7	(56.4)
Profit from continuing operations		**147.3**	**(46.5)**	**100.8**	144.0	(49.0)	95.0
Loss from discontinued operations	**13**	**(1.3)**	**(25.4)**	**(26.7)**	(1.5)	(86.2)	(87.7)
Profit for the year		**146.0**	**(71.9)**	**74.1**	142.5	(135.2)	7.3
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY		**127.8**	**(71.3)**	**56.5**	120.2	(134.9)	(14.7)
Non-controlling interests		**18.2**	**(0.6)**	**17.6**	22.3	(0.3)	22.0
		146.0	**(71.9)**	**74.1**	142.5	(135.2)	7.3
Earnings/(loss) per share (cents)	**7**						
Continuing operations:							
Basic				**5.18**			4.82
Diluted				**5.13**			4.79
Continuing and discontinued operations:							
Basic				**3.52**			(0.98)
Diluted				**3.48**			(0.97)
Adjusted earnings per share	**14 (d)**	**8.04**			8.02		

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

Coats Group plc

Consolidated statement of comprehensive income

Year ended 31 December	**2023 US$m**	Restated* 2022 US$m
Profit for the year	**74.1**	7.3
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit schemes (note 15)	**(70.8)**	15.3
Tax on items that will not be reclassified	**(0.2)**	5.4
	(71.0)	20.7
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(0.4)**	(27.2)
Remeasurement of equity investment at fair value	**(6.7)**	-
	(7.1)	(27.2)
Items reclassified to profit or loss:		
Exchange differences transferred to income statement on sale of business (note 13)	**6.6**	15.0
Other comprehensive income and expense for the year	**(71.5)**	8.5
Net comprehensive income and expense for the year	**2.6**	15.8

Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	**(14.3)**	(5.5)
Non-controlling interests	**16.9**	21.3
	2.6	15.8

* Pension surplus amounts at 31 December 2022 for the Coats UK and US pension schemes have been restated to reflect a change in measurement as further described in note 1. There is no impact on ether profits or cash flows for the year ended 31 December 2022.

Coats Group plc

Consolidated statement of financial position

	Note	31 December 2023 US$m	Restated* 31 December 2022 US$m	Restated* 31 December 2021 US$m
Non-current assets				
Goodwill		**126.1**	124.7	26.2
Other intangible assets		**470.7**	488.7	256.7
Property, plant and equipment		**243.2**	256.3	244.5
Right-of-use assets		**74.4**	96.5	91.6
Investments in joint ventures		**12.8**	13.1	12.0
Other equity investments		**0.9**	5.9	6.0
Deferred tax assets		**18.0**	24.4	20.7
Pension surpluses	**15**	**148.2**	186.9	163.7
Trade and other receivables		**19.5**	20.2	28.7
		1,113.8	1,216.7	850.1
Current assets				
Inventories		**173.5**	211.4	250.1
Trade and other receivables		**292.0**	286.3	302.7
Pension surpluses	**15**	**1.6**	2.0	5.2
Cash and cash equivalents	**11 (g)**	**132.4**	172.4	107.2
Non-current assets classified as held for sale		**1.0**	-	-
		600.5	672.1	665.2
Total assets		**1,714.3**	1,888.8	1,515.3
Current liabilities				
Trade and other payables		**(285.6)**	(278.4)	(346.8)
Income tax liabilities		**(45.5)**	(20.2)	(16.5)
Bank overdrafts and other borrowings	**11 (g)**	**(144.3)**	(16.7)	(19.2)
Lease liabilities	**11 (g)**	**(17.5)**	(19.0)	(17.8)
Retirement benefit obligations:				
- Funded schemes	**15**	**(0.8)**	(27.6)	(41.9)
- Unfunded schemes	**15**	**(7.7)**	(5.0)	(6.1)
Provisions		**(17.1)**	(18.2)	(8.1)
		(518.5)	(385.1)	(456.4)
Net current assets		**82.0**	287.0	208.8
Non-current liabilities				
Trade and other payables		**(3.2)**	(26.3)	(24.2)
Deferred tax liabilities		**(63.9)**	(78.2)	(26.5)
Borrowings	**11 (g)**	**(372.2)**	(550.1)	(235.1)
Lease liabilities	**11 (g)**	**(69.3)**	(86.4)	(81.2)
Retirement benefit obligations:				
- Funded schemes	**15**	**(2.9)**	(3.3)	(5.6)
- Unfunded schemes	**15**	**(75.6)**	(83.4)	(90.2)
Provisions		**(19.3)**	(25.4)	(27.7)
		(606.4)	(853.1)	(490.5)
Total liabilities		**(1,124.9)**	(1,238.2)	(946.9)
Net assets		**589.4**	650.6	568.4
Equity				
Share capital	**8**	**99.0**	99.0	90.1
Share premium account		**111.4**	111.4	10.5
Own shares	**8**	**(6.1)**	(0.1)	(0.5)
Translation reserve		**(109.7)**	(116.6)	(105.1)
Capital reduction reserve		**59.8**	59.8	59.8
Other reserves		**246.3**	246.3	246.3
Retained profit		**157.4**	216.7	236.2
Equity shareholders' funds		**558.1**	616.5	537.3
Non-controlling interests		**31.3**	34.1	31.1
Total equity		**589.4**	650.6	568.4

* Pension surplus amounts at 31 December 2022 and 31 December 2021 for the Coats UK and US pension schemes have been restated to reflect a change in measurement as further described in note 1. There is no impact on ether profits or cash flows for the year ended 31 December 2022.

Coats Group plc

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained profit US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2022 as originally reported	90.1	10.5	(0.5)	(105.7)	59.8	246.3	252.5	553.0	31.1	584.1
Restatement in respect of prior year*	-	-	-	0.6	-	-	(16.3)	(15.7)	-	(15.7)
Balance as at 1 January 2022 as restated	90.1	10.5	(0.5)	(105.1)	59.8	246.3	236.2	537.3	31.1	568.4
(Loss)/profit for the year	-	-	-	-	-	-	(14.7)	(14.7)	22.0	7.3
Other comprehensive income and expense for the year	-	-	-	(11.5)	-	-	20.7	9.2	(0.7)	8.5
Application of IAS 29 (note 1)	-	-	-	-	-	-	5.0	5.0	-	5.0
Dividends	-	-	-	-	-	-	(32.9)	(32.9)	(18.3)	(51.2)
Issue of ordinary shares	8.9	100.9	-	-	-	-	-	109.8	-	109.8
Purchase of own shares by Employment Benefit Trust	-	-	(2.1)	-	-	-	-	(2.1)	-	(2.1)
Movement in own shares	-	-	2.5	-	-	-	(2.5)	-	-	-
Share based payments	-	-	-	-	-	-	4.6	4.6	-	4.6
Deferred tax on share schemes	-	-	-	-	-	-	0.3	0.3	-	0.3
Balance as at 31 December 2022	**99.0**	**111.4**	**(0.1)**	**(116.6)**	**59.8**	**246.3**	**216.7**	**616.5**	**34.1**	**650.6**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**56.5**	**56.5**	**17.6**	**74.1**
Other comprehensive income and expense for the year	**-**	**-**	**-**	**6.9**	**-**	**-**	**(77.7)**	**(70.8)**	**(0.7)**	**(71.5)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(40.6)**	**(40.6)**	**(19.7)**	**(60.3)**
Purchase of own shares by Employee Benefit Trust	**-**	**-**	**(10.1)**	**-**	**-**	**-**	**-**	**(10.1)**	**-**	**(10.1)**
Movement in own shares	**-**	**-**	**4.1**	**-**	**-**	**-**	**(4.5)**	**(0.4)**	**-**	**(0.4)**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**7.0**	**7.0**	**-**	**7.0**
Balance as at 31 December 2023	**99.0**	**111.4**	**(6.1)**	**(109.7)**	**59.8**	**246.3**	**157.4**	**558.1**	**31.3**	**589.4**

* Pension surplus amounts at 31 December 2022 and 31 December 2021 for the Coats UK and US pension schemes have been restated to reflect a change in measurement as further described in note 1. There is no impact on ether profits or cash flows for the year ended 31 December 2022.

Coats Group plc
Consolidated statement of cash flows

For the year ended 31 December	Note	2023 US$m	2022 US$m
Cash inflow from operating activities			
Cash generated from operations	11 (a)	**217.3**	176.5
Interest paid	11 (b)	**(33.7)**	(25.5)
Taxation paid	11 (c)	**(59.7)**	(54.6)
Net cash generated by operating activities		**123.9**	96.4
Cash outflow from investing activities			
Investment income	11 (d)	**0.6**	0.5
Net capital expenditure and financial investment	11 (e)	**(19.7)**	(31.6)
Acquisitions of businesses	11 (f)	**-**	(271.2)
Disposal of businesses	11 (f)	**(1.2)**	(17.0)
Net cash absorbed in investing activities		**(20.3)**	(319.3)
Cash (outflow)/inflow from financing activities			
Issue of ordinary shares		**-**	109.8
Purchase of own shares by Employee Benefit Trust		**(10.1)**	(2.1)
Dividends paid to equity shareholders		**(40.3)**	(33.0)
Dividends paid to non-controlling interests		**(19.7)**	(18.3)
Payment of lease liabilities		**(18.5)**	(18.1)
Borrowings settled on completion of acquisitions	12	**-**	(62.5)
(Repayment)/drawdown of term loan acquisition facility		**(240.0)**	240.0
Issue of senior notes		**248.6**	-
Net (decrease)/increase in other borrowings		**(67.0)**	79.2
Net cash (absorbed in)/generated from financing activities		**(147.0)**	295.0
Net (decrease)/increase in cash and cash equivalents		**(43.4)**	72.1
Net cash and cash equivalents at beginning of the year		**157.7**	90.8
Foreign exchange losses on cash and cash equivalents		**(2.8)**	(5.2)
Net cash and cash equivalents at end of the year	11 (g)	**111.5**	157.7
Reconciliation of net cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents		**(43.4)**	72.1
Repayment/(drawdown) of term loan acquisition facility		**240.0**	(240.0)
Issue of senior notes		**(248.6)**	-
Net decrease/(increase) in other borrowings		**67.0**	(79.2)
Change in net debt resulting from cash flows (Free cash flow)	14 (e)	**15.0**	(247.1)
Net movement in lease liabilities during the year		**17.5**	(13.0)
Movement in fair value hedges		**(1.2)**	5.2
Other non-cash movements		**(1.5)**	(1.0)
Foreign exchange (losses)/gains		**(0.9)**	2.2
Decrease/(increase) in net debt		**28.9**	(253.7)
Net debt at the start of the year		**(499.8)**	(246.1)
Net debt at the end of the year	11 (g)	**(470.9)**	(499.8)

Notes to the consolidated financial information for the year ended 31 December 2023

1. Basis of preparation

The financial information set out in this statement does not constitute the Coats Group plc's statutory accounts for the years ended 31 December 2023 or 2022. The financial information for the year ended 31 December 2022 and 2023 is derived from the statutory accounts for 2022 (which has been delivered to the Registrar of Companies) and 2023 (which will be delivered to the Registrar of Companies following the AGM in May 2024). The auditors have reported on the 2022 and 2023 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

The Group's financial statements for the year ended 31 December 2023 have been prepared in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006, and complies with the disclosure requirements of the Listing Rules of the UK Financial Conduct Authority. The accounting policies adopted by the Group are consistent with those set out in the 2022 Annual Report. A full list of accounting policies will be presented in the 2023 Annual Report. For details of new accounting policies applicable to the Group in 2023 and their impact please refer below.

Whilst the financial information included in this statement has been compiled in accordance with the recognition and measurement principles of applicable United Kingdom adopted international accounting standards ('IFRS'), this statement does not itself contain sufficient information to comply with IFRS. Full financial statements that comply with IFRS are included in the 2023 Annual Report; these will be available to shareholders in March 2024.

Critical accounting judgements and key sources of estimation uncertainty

The principal accounting policies adopted by the Group are set out in 2023 Annual Report. 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 year and/or the carrying values of assets and liabilities in the consolidated financial statements.

In the course of preparing the financial statements, the below critical judgements and key sources of estimation uncertainty have had a significant effect on the amounts recognised in the financial statements for the year ended 31 December 2023. The critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2022, except for the critical accounting judgement relating to the sale of the European Zips business in 2023 set out below.

Critical judgements in applying the Group's accounting policies

Exceptional and acquisition related items

Judgement is used to determine those items which should be separately disclosed as exceptional and acquisition related items to provide valuable additional information for users of the financial statements in understanding the Group's performance. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities. Please see note 3 for further details.

UK pension surplus recognition

The Group has recognised a net defined benefit pension surplus for the Coats UK Pension Scheme under IAS 19 of $102.2 million at 31 December 2023 (2022: $117.5 million). Judgement has been applied when interpreting the scheme rules to determine whether the Group can recognise this surplus asset amount on the statement of financial position or whether any economic benefits available as a refund are contingent upon factors beyond the Group's control and instead require an adjustment to be made to restrict the amount of the surplus recognised and reflect a liability arising from future committed contributions to the Coats UK Pension Scheme under IFRIC 14. The Group has determined that it has an unconditional right to a refund of the surplus assuming the gradual settlement of liabilities over time and therefore has recognised the full amount of the net defined benefit pension surplus. Please see note 15 for further details.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

1. Basis of preparation (continued)

Critical judgements in applying the Group's accounting policies (continued)

Discontinued operations

In management's judgement the European Zips business which was sold in August 2023 represents a separate major line of business and therefore its results for 2023 have been presented as a discontinued operation with 2022 comparative amounts represented to reclassify the results of the European Zips business from continuing operations to discontinued operations (see note 13 for further details of the sale).

Judgement is used by the Group in assessing whether a disposal of a business represents a disposal of a separate major line of business considering the facts and circumstances of each disposal. In determining whether a disposal represents a separate major line of business, the Group considers both quantitative and qualitative factors.

If the Group had concluded that the disposal of the European Zips business did not represent a discontinued operation, the Group's revenue and operating profit before exceptional and acquisition related items from continuing operations for the year ended 31 December 2023 would have been $1,419.5 million and $232.1 million respectively (2022: $1,583.8 million and $234.9 million respectively). The Group's revenue and operating profit before exceptional and acquisition related items from continuing operations for the year ended 31 December 2023 was $1,394.2 million and $233.4 million respectively (2022: $1,537.6 million and $232.7 million respectively) with the European Zips business reported as a discontinued operation.

In addition the loss on disposal of the European Zips business of $23.7 million, including foreign exchange losses transferred to the income statement on disposal, would have been presented as other operating costs from continuing operations under exceptional and acquisition related items. Other exceptional costs incurred by the European Zips business of $1.7 million would also have been charged to operating profits from continuing operations. As a result, total exceptional and acquisition related items charged to operating profits from continuing operations would have been $74.8 million compared to $49.4 million that has been reported for the year ended 31 December 2023. See note 13 for further details on the results of the European Zips business.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

UK retirement benefit obligations

The UK retirement benefit surplus recognised in the consolidated statement of financial position is the net of the fair value of scheme assets less the present values of the defined benefit obligations at the year end. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and inflation rates. Changes in any or all of these assumptions could materially change the employee benefit surplus recognised in the consolidated statement of financial position.

Sensitivities regarding the discount rate and inflation assumptions used to measure the liabilities of the UK pension scheme are set out in note 15.

New IFRS accounting standards, interpretations and amendments adopted in the year

Except for the changes to operating segments (as detailed in note 2) and the changes arising from the adoption of new accounting standards, interpretations and amendments (as detailed below), the same accounting policies, presentation and methods of computation have been followed in the financial information set out in this statement as applied in the Group's annual financial statements for the year ended 31 December 2022.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

1. Basis of preparation (continued)

New IFRS accounting standards, interpretations and amendments adopted in the year (continued)

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

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

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

The Group has applied the exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12 Income taxes in respect of Pillar Two income taxes. Accordingly, the Group has not recognised or disclosed information about deferred tax assets and liabilities related to Pillar Two income taxes.

Prior period restatement of pension surplus amounts

Pension surplus amounts at 31 December 2022 and 31 December 2021 for the Coats UK and US pension schemes have been restated to reflect a change in measurement as set out in note 15. There is no impact on either profits or cash flows for the year ended 31 December 2022.

Discontinued operations

On 30 June 2023 the Group entered into an agreement to sell its European Zips business to Aequita, a German family office. The sale was completed on 31 August 2023, the date which control passed to the acquirer. The exit from the European Zips business was in line with Coats' previously announced strategic initiatives to optimise the Group's portfolio and footprint, and improve the overall cost base efficiency. The results of the European Zips business is presented as a discontinued operation in the consolidated income statement for the year ended 31 December 2023. Amounts for the year ended 31 December 2022 in the consolidated income statement have been represented to reclassify the results of the European Zips business from continuing operations to discontinued operations. Note 13 provides further details of the sale.

Going concern

The Directors are satisfied that the Group and the Company has sufficient resources to continue in operation for the period from the date of this report to 30 June 2025. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements. In assessing the Group's going concern position, the Directors have considered a number of factors, including the current balance sheet position and available liquidity, the current trading performance as set out in the Full Year Results Overview section of the Chief Executive's Review included in the 2023 Annual Report, the principal and emerging risks which could impact the performance of the Group and compliance with borrowing covenants.

In order to assess the going concern status of the Group, management has prepared:

- A base case scenario, aligned to the latest Group budget for 2024 as well as the Group's updated Medium Term Plan for 2025, which takes into account the repayment of $125 million of US Private Placement debt that matures during the going concern assessment period;

- A number of downside scenarios have been prepared, which all assume that the global economic environment is depressed over the assessment period. One of these scenarios assumes trading broadly in line with 2023, this scenario is considered to be severe but plausible as 2023 was impacted by high inflation, elevated interest rates and the unprecedented industry destocking, which is not expected to reoccur given improving sales trends and normalising customer inventory levels. Further, even more severe downside scenarios, which assume declines in trading performance relative to that seen in the past 12 months, continue to show significant liquidity and covenant headroom; and

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

1. Basis of preparation (continued)

Going concern (continued)

- A reverse stress test flexing sales to determine what circumstance would be required to either reduce headroom to nil on committed borrowing facilities or breach borrowing covenants, whichever occurred first.

As more fully described in the Outlook section included in the 2023 Annual Report, the Directors expect the Group to make good progress in 2024 underpinned by modest but accelerating revenue growth, with a weighting to the second half and the base case scenario reflects these expectations. The severe but plausible downside scenario includes further management actions that would be deployed if required (for example further reduction in costs).

The reverse stress test noted an implausible decrease in trading performance, with revenues almost 30% below the base case, would be required. The test also includes further controllable management actions that could be deployed if required (for example no bonus payments, reduced discretionary costs and significantly reduced capital expenditure). The outcome of the reverse stress test was that the leverage covenant would be breached, however, at the breaking point in the test the Group still maintained sufficient liquidity on committed borrowing facilities. The Directors consider the likelihood of the condition in the reverse stress test occurring to be remote on the basis that the Group has not experienced such a decline historically.

Liquidity headroom

As at 31 December 2023 the Group's net debt (excluding IFRS 16 leases liabilities) was $384.1 million (2022: $394.4 million). The Group's committed debt facilities total $835 million across its Banking and US Private Placement group, with a range of maturities from December 2024 through to 2030. In the base case, severe but plausible downside scenario and reverse stress test scenario it has been assumed that the $125 million of US Private Placement maturing during the going concern assessment period in December 2024 will be repaid in full through a drawdown in the Group's revolving credit facility. The Directors expect that the revolving credit facility, which matures in April 2026, will be refinanced on similar terms. As of 31 December 2023 the Group had around $315 million of headroom against these committed banking facilities. In all three scenarios liquidity headroom exists throughout the assessment period.

Covenant testing

The Group's committed borrowing facilities are subject to ongoing covenant testing. Covenants are measured twice a year, at full year and half year on a twelve month rolling basis and are measured under frozen accounting standards and therefore exclude the effects of IFRS 16. The financial covenants under the borrowing agreements are for leverage (net debt / EBITDA) less than 3.0 and interest cover (EBITDA / interest charge) to be in excess of 4.0. All banking covenants tests were met at 31 December 2023, with leverage of 1.5x and interest cover of 8.2x. The base case forecast indicates that banking covenants will be met throughout the assessment period. Under the severe but plausible downside scenario covenant compliance is still projected to be achieved throughout the assessment period.

Conclusion

In conclusion, after reviewing the base case, the severe but plausible downside scenario and considering the remote likelihood of the scenario in the reverse stress test occurring, the Directors have formed the judgement that, at the time of approving the consolidated financial statements, there are no material uncertainties that cast doubt on the Group's and the Company's going concern status and that it is appropriate to prepare the consolidated financial statements on the going concern basis for the period from the date of this report to 30 June 2025.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

1. Basis of preparation (continued)

Principal exchange rates

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

		2023	2022
Average	Sterling	**0.80**	0.81
	Euro	**0.92**	0.95
	Chinese Renminbi	**7.08**	6.73
	Indian Rupee	**82.56**	78.59
	Turkish Lira *	**23.79**	16.57
Period end	Sterling	**0.79**	0.83
	Euro	**0.91**	0.93
	Chinese Renminbi	**7.10**	6.90
	Indian Rupee	**83.19**	82.72
	Turkish Lira	**29.48**	18.69

* Cumulative inflation rates over a three-year period exceeded 100% in Turkey in May 2022 and since then Turkey is considered as hyperinflationary. As a result, IAS 29 “Financial Reporting in Hyperinflationary Economies” was applied for the first time for the year ended 31 December 2022. In accordance with IAS 29, the financial statements of the Company’s subsidiary in Turkey are translated into the Group’s US Dollar presentational currency at the year end exchange rate. Monetary assets and liabilities are not restated. All non-monetary items recorded at historical rates are restated for the change in purchasing power caused by inflation from the date of initial recognition to the year end balance sheet date. The income statement of the Company’s subsidiary in Turkey is adjusted for inflation during the reporting period. The translation adjustment resulting from the initial application of IAS 29 of $5.0 million was recognised in equity. A net monetary gain of $2.3 million for the year ended 31 December 2023 (2022: $1.9 million) was recognised within finance income on non-monetary items held in Turkish Lira. The inflation rate used is the consumer price index published by the Turkish Statistical Institute, TurkStat. The movement in the price index for the year ended 31 December 2023 was 65% (2022: 64%).

2. Segmental analysis

Operating segments are components of the Group’s business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Group Executive Team) in deciding how to allocate resources and in assessing performance.

Following the acquisitions of Texon and Rhenoflex in July and August 2022 respectively, effective 1 January 2023 the Group’s organisational structure and reporting structure consists of three divisions: Apparel, Footwear and Performance Materials (year ended 31 December 2022: two divisions Apparel & Footwear and Performance Materials).

The Group’s customers are grouped into three segments Apparel, Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles. The Footwear Division consists of the footwear thread business and the acquired structural components businesses, Texon and Rhenoflex.

From 1 January 2023, this is the basis on which financial information is reported internally to the chief operating decision maker (CODM) for the purpose of allocating resources between segments and assessing their performance.

As a result of the above, the reportable segments were changed in 2023 to Apparel, Footwear and Performance Materials and comparative information for the year ended 31 December 2022 has been restated on a consistent basis. Previously the reportable segments for the year ended 31 December 2022 comprised Apparel & Footwear and Performance Materials.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

2. Segmental analysis (continued)

Segment revenue and results

Year ended 31 December 2023	Apparel US$m	Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations				
Revenue	**689.4**	**368.4**	**336.4**	**1,394.2**
Segment profit	**120.4**	**84.1**	**28.9**	**233.4**
Exceptional and acquisition related items (note 3)				**(49.4)**
Operating profit				**184.0**
Share of profits of joint ventures				**1.1**
Finance income				**4.6**
Finance costs				**(33.9)**
Profit before taxation from continuing operations				**155.8**

Year ended 31 December 2022*	Apparel US$m	Footwear US$m	Performance Materials US$m	Total US$m
Continuing operations				
Revenue	817.5	299.7	420.4	1,537.6
Segment profit	130.4	68.2	34.1	232.7
Exceptional and acquisition related items (note 3)				(51.6)
Operating profit				181.1
Share of profits of joint ventures				1.1
Finance income				2.6
Finance costs				(33.4)
Profit before taxation from continuing operations				151.4

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1) and restated following the change in reportable segments to Apparel, Footwear and Performance Materials (previously Apparel & Footwear and Performance Materials).

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Exceptional and acquisition related items are not allocated to segments. In addition, no measures of total assets and total liabilities are reported for each reportable segment as such amounts are not regularly provided to the chief operating decision maker. The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

2. Segmental analysis (continued)

Disaggregation of revenue

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

Year ended 31 December	2023 US$m	2022* US$m
Continuing operations		
Primary geographic markets		
Asia	**822.6**	911.8
Americas	**246.3**	340.6
EMEA	**325.3**	285.2
Total	**1,394.2**	1,537.6
Continuing operations		
Apparel	**689.4**	817.5
Footwear	**368.4**	299.7
Performance Materials	**336.4**	420.4
Total	**1,394.2**	1,537.6
Timing of revenue recognition		
Goods transferred at a point in time	**1,385.1**	1,527.4
Software solution services transferred over time	**9.1**	10.2
Total	**1,394.2**	1,537.6

The software solutions business is included in the Apparel segment. The Group had no revenue from a single customer which accounts for more than 10% of the Group's revenue.

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

3. Exceptional and acquisition related items

The Group's consolidated income statement format is presented before and after exceptional and acquisition related items. Adjusted results exclude exceptional and acquisition related items on a consistent basis with the previous reporting period to provide valuable additional information for users of the financial statements in understanding the Group's performance and reflects how the performance of the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 14.

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

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

3. Exceptional and acquisition related items (continued)

Total exceptional and acquisition related items charged to profit before taxation from continuing operations for the year ended 31 December 2023 were $49.4 million (2022: $52.7 million) comprising exceptional items for the year ended 31 December 2023 of $27.9 million (2022: $28.9 million) and acquisition related items for the year ended 31 December 2023 of $21.5 million (2022: $23.8 million). Taxation in respect of exceptional and acquisition related items is set out in note 6.

Exceptional items

Exceptional items charged/(credited) to profit before taxation from continuing operations during the year ended 31 December 2023 are set out below:

Year ended 31 December	**2023 US$m**	2022* US$m
Exceptional items:		
Strategic project costs:		
- Cost of sales	**13.4**	9.9
- Distribution costs	**1.3**	3.8
- Administrative costs	**9.1**	16.4
	23.8	30.1
Profit on sale of property and businesses:		
- Other operating income	**(5.8)**	(1.2)
Costs from integration of Footwear acquisitions:		
- Cost of sales	**4.8**	-
- Distribution costs	**1.3**	-
- Administrative costs	**0.2**	-
	6.3	-
Lower Passaic River non-cash impairment charge:		
- Administrative costs	**3.6**	-
Total exceptional items charged to profit before taxation from continuing operations	**27.9**	28.9

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

Strategic project costs

At the end of 2021 the Group commenced a strategic project to improve margins by optimising the portfolio and footprint, improving the overall cost base efficiency, and mitigating structural labour availability issues in the US.

During the year ended 31 December 2023 activities were undertaken to establish a second new plant in Mexico at Toluca. Further initiatives in the US to deliver operating efficiencies and mitigate structural labour availability were advanced. In addition the Group undertook optimisation initiatives in China and India. In China, manufacturing activities of lower-margin zip production ceased and were outsourced to a third party supplier. In India, there have been headcount reductions, with office and warehouse space being consolidated.

During the year ended 31 December 2022 a new facility was established in Huamantla, Mexico, manufacturing processes were transferred from the US and a legacy facility in the US was exited. In EMEA thread operations in Romania were consolidated in a purpose-built logistics facility and warehouses in Poland and Hungary were exited. Corporate and overhead activities in the UK and US were moved closer to the Group's operations and customers and UK and US offices were exited.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

3. Exceptional and acquisition related items (continued)

Strategic project costs (continued)

As a result of these activities, exceptional restructuring costs totalling $23.8 million were incurred during the year ended 31 December 2023 (2022: $30.1 million) which included:

- severance and related employee costs of $11.1 million (2022: $22.0 million);
- non-cash impairment charges of property, plant and equipment and right-of-use assets of $5.2 million (2022: $4.7 million); and
- legal, advisers, closure and related costs of $7.5 million (2022: $3.4 million).

Profit on sale of property and businesses

During the year ended 31 December 2023 profit from the sale of land and buildings as part of the above strategic project was $5.8 million (2022: $1.2 million).

In addition the Group completed the sale of its businesses in Mauritius and Madagascar in January 2023 for a cash consideration of $1.4 million resulting in a profit on disposal of $nil. The net assets disposed totalled $1.4 million comprising property, plant and equipment of $0.1 million, inventories of $0.6 million, debtors of $0.6 million, cash of $0.6 million and current liabilities of $0.5 million.

Costs from integration of Footwear acquisitions

During the year ended 31 December 2023 exceptional costs of $6.3 million were recognised relating to the integration of the Texon and Rhenoflex businesses, which were acquired in July 2022 and August 2022 respectively. These exceptional costs primarily relate to the elimination of duplicated roles and from the consolidation of back-office activities and costs associated with the commencement of a strategic project to consolidate the under-utilised UK-based footwear production site into the Group’s existing facility in Indonesia. Non-cash impairment charges of property, plant and equipment incurred during the year ended 31 December 2023 were $0.3 million.

Lower Passaic River non-cash charge

A non-cash exceptional impairment charge of $3.6 million has been made for the year ended 31 December 2023 relating to the full amount of an insurance asset that had previously been recognised for the expected partial recovery of future remediation costs and associated legal and professional costs in connection with the Lower Passaic River legacy environmental matter. The impairment charge was recognised for accounting purposes because at the end of 2023 the insurer was placed into liquidation. This is without prejudice to any future claims against the insurer in the liquidation proceedings.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

3. Exceptional and acquisition related items (continued)

Acquisition related items

Acquisition related items are set out below:

Year ended 31 December	2023 US$m	2022 US$m
Acquisition related items:		
Administrative expenses:		
Amortisation of acquired intangible assets	**21.5**	10.8
Acquisition transaction costs	**-**	11.9
	21.5	22.7
Finance costs:		
Acquisition transaction costs	**-**	1.1
Total acquisition related items charged to profit before taxation from continuing operations	**21.5**	23.8

Acquisition transaction costs charged to administrative expenses during the year ended 31 December 2022 of $11.9 million included transaction costs relating to the acquisitions of Texon and Rhenoflex (see note 12).

Acquisition transaction costs charged to finance costs during the year ended 31 December 2022 of $1.1 million related to the $240.0 million term loan acquisition facility used to finance the acquisition of Texon.

Acquisition transaction costs and amortisation of intangible assets acquired through business combinations are not included within adjusted operating profit and adjusted earnings per share. These costs are acquisition related and management consider them to be capital in nature and are not included in profitability measures by which management assess the performance of the Group.

Excluding amortisation of intangible assets acquired through business combinations and recognised in accordance with IFRS 3 “Business Combinations” from adjusted results also ensures that the performance of the Group’s acquired businesses is presented consistently with its organically grown businesses. It should be noted that the use of acquired intangible assets contributed to the Group’s results for the years presented and will contribute to the Group’s results in future periods as well. Amortisation of acquired intangible assets will recur in future periods. Amortisation of software is included within operating results as management consider these cost to be part of the trading performance of the business.

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

4. Finance income

Year ended 31 December	2023 US$m	2022 US$m
Income from investments	**0.1**	0.1
Net monetary gain arising from hyperinflation accounting (see note 1)	**2.3**	1.9
Other interest receivable and similar income	**2.2**	0.6
	4.6	2.6

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

5. Finance costs

Year ended 31 December	**2023 US$m**	2022 US$m
Interest on bank and other borrowings	**30.3**	18.9
Interest expense on lease liabilities	**5.6**	4.9
Net interest on pension scheme assets and liabilities	**(4.4)**	0.5
Other finance costs including unrealised gains and losses on foreign exchange contracts	**2.4**	9.1
	33.9	33.4

Other finance costs for the year ended 31 December 2022 included acquisition related transaction costs of $1.1 million incurred in connection with the $240.0 million term loan acquisition facility used to finance the acquisition of Texon (see note 3).

6. Tax on profit from continuing operations

Year ended 31 December	**2023 US$m**	2022 US$m
UK Corporation tax at 23.5% (2022: 19%)	**-**	-
Overseas tax charge	**(64.0)**	(56.2)
Deferred tax credit/(charge)	**9.0**	(0.2)
Total tax charge	**(55.0)**	(56.4)

The overseas tax charge includes withholding tax charges for the year ended 31 December 2023 of $10.2 million (2022: $13.3 million).

For the year ended 31 December 2023 the tax credit in respect of exceptional and acquisition related items was $2.9 million (2022: $3.7 million). This includes exceptional tax credits of $2.3 million (2022: $2.0 million) in connection with the exceptional strategic projects and $0.6 million (2022: $1.7 million) relating to the unwinding of deferred tax liabilities on the amortisation of acquired Texon and Rhenoflex intangible assets and the impact of tax rate differences.

7. Earnings/(loss) per share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of Ordinary Shares in issue during the year, excluding shares held by the Employee Benefit Trust but including shares under share incentive schemes which are not contingently issuable.

The calculation of basic earnings/(loss) per ordinary share from continuing and discontinued operations is based on the profit/(loss) attributable to equity shareholders. The weighted average number of ordinary shares used for the calculation of basic earnings per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential Ordinary Shares: those shares relating to awards under the Group Deferred Bonus Plan which have been awarded but not yet reached the end of the three year retention period and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

7. Earnings/(loss) per share (continued)

Year Ended 31 December	2023 US$m	2022* US$m
Profit from continuing operations attributable to equity shareholders	**83.2**	73.0
Profit/(loss) from continuing and discontinued operations attributable to equity shareholders	**56.5**	(14.7)

Profit from continuing operations attributable to equity shareholders for the year ended 31 December 2023 of $83.2 million (2022: $73.0 million) comprises the profit from continuing operations for the year ended 31 December 2023 of $100.8 million (2022: $95.0 million) less non-controlling interests for the year ended 31 December 2023 of $17.6 million (2022: $22.0 million) as reported in the income statement.

Year Ended 31 December	2023 Number of shares m	2022 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,605.0**	1,516.0
Adjustment for share options and LTIP awards	**16.4**	9.3
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,621.4**	1,525.3

Year Ended 31 December	2023 cents	2022* cents
Continuing operations:		
Basic earnings per ordinary share	**5.18**	4.82
Diluted earnings per ordinary share	**5.13**	4.79
Continuing and discontinued operations:		
Basic earnings/(loss) per ordinary share	**3.52**	(0.98)
Diluted earnings/(loss) per ordinary share	**3.48**	(0.97)

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

8. Issued share capital

During the year ended 31 December 2023 the Company had 1,597,710,385 Ordinary shares of 5p each in issue.

	Number of Shares	US$m
At 31 December 2023 and 31 December 2022	**1,597,810,385**	**99.0**

The own shares reserve of $6.1 million at 31 December 2023 (2022: $0.1 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 31 December 2023 was 6,124,223 (2022: 805,501).

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

9. Dividends

Year Ended 31 December	**2023 US$m**	2022 US$m
2023 interim dividend paid – 0.81 cents per share	**13.0**	-
2022 final dividend paid – 1.73 cents per share	**27.6**	-
2022 interim dividend paid – 0.70 cents per share	**-**	11.1
2021 final dividend paid – 1.50 cents per share	**-**	21.8
	40.6	32.9

The proposed final dividend of 1.99 cents per ordinary share for the year ended 31 December 2023 is not recognised as a liability in the consolidated statement of financial position in line with the requirements of IAS 10 Events after the Reporting Period and, subject to shareholder approval, will be paid on 30 May 2024 to ordinary shareholders on the register on 3 May 2024, with an ex-dividend date of 2 May 2024.

10. US environmental matters

As noted in previous reports, in December 2009, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Over 100 PRPs have been identified by EPA. In 2011, CC joined a cooperating parties group ('CPG') of companies formed to fund and conduct a remedial investigation and feasibility study of the area.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation, including those that are the most responsible for its contamination.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR at an estimated cost of $1.38 billion on a net present value basis. In September 2021, EPA issued a Record of Decision selecting an interim remedy for the upper 9 miles of the LPR (involving targeted removal of contaminants and ongoing monitoring to assess whether additional contaminant removal would be necessary), at an estimated cost of $441 million on a net present value basis.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower 8 miles of the LPR.

Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC that covered the LPR, has been granted Chapter 11 bankruptcy protection, but OCC remains responsible for its remedial obligations even in the absence of Maxus' indemnity. The approved bankruptcy plan created a liquidating trust to pursue potential claims against Maxus' parent entity, YPF SA, and potentially others. A settlement of those claims is expected to result in additional funding for the LPR remedy.

While the ultimate costs of the remedial design and the final remedy for the full 17-mile LPR are expected to be shared among more than a hundred parties, including many who are not currently in the CPG, a pending settlement involving CC and other parties has not yet been approved by the court and the share of payments for other parties has not yet been determined.

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern that they were eligible for early cash out settlements. As expected, EPA did not identify CC as one of those 20 parties. EPA invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the allocation, CC presented factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis or even smaller de micromis party. The allocation process concluded in December 2020. The EPA-appointed allocator determined that CC is in the lowest tier (Tier 5) of allocation parties, and is responsible for only a de micromis share of remedial costs.

10. US environmental matters (continued)

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

In 2015, a provision totalling $15.8 million was recorded for remediation costs for the entire 17 miles of the LPR and the estimated associated legal and professional costs in defence of CC's position. The provision for remediation costs was based on CC's estimated share of de minimis costs for (a) EPA's selected remedy for the lower 8 miles of the LPR and (b) the remedy for the upper 9 miles proposed by the CPG, which was later substantively adopted by the EPA. This charge to the income statement was net of insurance reimbursements and was stated on a net present value basis. During the year ended 31 December 2018, an additional provision of $8.0 million was recorded as an exceptional item to cover legal and professional fees.

At the end of 2023, CC's insurer was placed into liquidation. As a result, the previously recognised insurance receivable for future expected partial recovery of remediation costs and associated legal and professional costs was treated for accounting purposes as being impaired in full resulting in an exceptional charge of $3.6 million being recognised for the year ended 31 December 2023, without prejudice to any future claims against the insurer in the liquidation proceedings.

At 31 December 2023, the remaining provision was $12.2 million (31 December 2022: $9.2 million taking into account expected insurance reimbursements). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA process and OCC's lawsuit, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

In 2022, CC and other parties entered into a settlement with EPA in which the settling parties agreed to pay $150 million toward remediation of the full 17-mile LPR in exchange for a release for those matters addressed in the settlement. CC's share of the cash-out settlement is consistent with a de micromis share of total remedial costs for the full 17-mile LPR. EPA has indicated it will seek the balance of LPR remedial costs from OCC and a small number of other parties that EPA has determined were not eligible to participate in a cash-out settlement. These other parties would be responsible for most remedial costs over-runs. The settlement does not address claims for natural resource damages by federal natural resource trustees. The Group believes that CC's share, if any, of such costs would be de micromis.

In late 2022, the cash-out settlement for the full 17-mile LPR was lodged with the court by the Department of Justice (DOJ) on behalf of EPA. On 31 January 2024, DOJ moved for entry of the settlement on behalf of EPA, with amendments that are not material to CC. Court approval is necessary for the settlement to go into effect, and OCC has indicated that it will oppose such approval. DOJ and EPA have asserted that the settlement is fair and reasonable and that it should be approved by the court, and courts have generally deferred to EPA's judgment on such matters. However, it is nonetheless possible that the court may not approve the settlement. It is also possible that the court may approve the settlement but permit OCC's litigation against the settling parties to continue in whole or in part. Because of these continued uncertainties, the Group is maintaining its current provision for the LPR for the present time.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that the EPA-appointed allocator correctly concluded that it has a de micromis share of the total remediation costs, and that OCC and other parties will be responsible for a significant share of the ultimate costs of remediation. As this matter evolves, the provision may be reduced if the settlement is approved by the court and if the court bars further litigation against CC and other settling parties. It is nonetheless still possible that additional provisions could be recorded and that such provisions could increase materially based on further decisions by the court, negotiations among the parties and other future events.

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

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

11. Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year Ended 31 December	2023 US$m	2022* US$m
Operating profit[1]	**184.0**	181.1
Depreciation of owned property, plant and equipment	**27.0**	26.1
Deprecation of right-of-use assets	**18.8**	18.9
Amortisation of intangible assets	**22.9**	12.6
Decrease in inventories	**21.1**	45.2
(Increase)/decrease in debtors	**(22.8)**	10.1
Increase/(decrease) in creditors	**18.9**	(74.8)
Provisions and pension movements	**(53.1)**	(43.2)
Foreign exchange and other non-cash movements	**4.5**	8.8
Discontinued operations	**(4.0)**	(8.3)
Cash generated from operations	**217.3**	176.5

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

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

b) Interest paid

Year Ended 31 December	2023 US$m	2022 US$m
Interest paid	**(33.7)**	(24.8)
Discontinued operations	**-**	(0.7)
	(33.7)	(25.5)

c) Taxation paid

Year Ended 31 December	2023 US$m	2022 US$m
Overseas tax paid	**(59.7)**	(54.6)

d) Investment income

Year Ended 31 December	2023 US$m	2022 US$m
Dividends received from joint ventures	**0.6**	0.5

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

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

e) Capital expenditure and financial investment

Year Ended 31 December	**2023** **US$m**	2022* US$m
Purchase of property, plant and equipment and intangible assets	**(31.0)**	(33.7)
Purchase of other equity investments	**(0.4)**	(0.1)
Proceeds from disposal of property, plant and equipment	**11.8**	2.8
Discontinued operations	**(0.1)**	(0.6)
	(19.7)	(31.6)

f) Acquisitions and disposals of businesses

Year Ended 31 December	**2023** **US$m**	2022 US$m
Acquisition of businesses (note 12)	**-**	(271.2)
Disposal of businesses (note 13)	**(1.2)**	(17.0)
	(1.2)	(288.2)

g) Summary of net debt

Year Ended 31 December	**2023** **US$m**	2022 US$m
Cash and cash equivalents	**132.4**	172.4
Bank overdrafts	**(20.9)**	(14.7)
Net cash and cash equivalents	**111.5**	157.7
Borrowings	**(495.6)**	(552.1)
Net debt excluding lease liabilities	**(384.1)**	(394.4)
Lease liabilities	**(86.8)**	(105.4)
Total net debt	**(470.9)**	(499.8)

For financial covenant purposes, the Group's leverage is calculated on the basis of net debt without IFRS 16 lease liabilities and at the Coats Group Finance Company Limited level. Net debt excluding IFRS 16 lease liabilities at the Coats Group Finance Company Limited level at 31 December 2023 for covenant purposes was $388.8 million (31 December 2022: $399.9 million).

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

12. Acquisitions

The Group completed two acquisitions during the prior year ended 31 December 2022 obtaining control of both Texon and Rhenoflex, leading manufacturers of structural footwear components supplying the world's leading footwear brands. Both have operations in Asia and Europe and are complementary additions to Coats' existing footwear business with opportunities to leverage existing footprints and combine expertise in the attractive athleisure footwear market.

- On 20 July 2022, the Group acquired the entire share capital of Torque Group International Fortune Limited ('Texon') for $211.0 million. On completion, the Group immediately settled all Texon's external bank debt of $24.4 million such that the total cash outflow was $235.4 million.

- On 23 August 2022, the Group also purchased the entire share capital of Rhenoflex GmbH ('Rhenoflex') for $81.5 million. On completion, the Group immediately settled all of Rhenoflex's external bank debt of $38.1 million such that the total cash outflow was $119.6 million.

The Texon transaction was funded through a $240.0 million term loan acquisition facility, which was refinanced in February 2023 and the Rhenoflex transaction was predominately financed through an equity raise of $109.8 million net of costs.

These acquisitions were accounted for as business combinations using the acquisition method in accordance with IFRS 3 'Business Combinations.' For each acquisition, a provisional assessment of the fair values of identified assets acquired and liabilities assumed had been undertaken during the year ended 31 December 2022 with assistance provided by external valuation specialists.

The assessment of the fair value of assets and liabilities acquired was completed within twelve months of the acquisition dates. No changes were necessary to the provisional fair values recognised in the year ended 31 December 2022.

Goodwill and intangible assets acquired for Texon and Rhenoflex totalled $338.7 million.

The purchase consideration was paid in cash with the amounts included in the statement of consolidated cash flows for the year ended 31 December 2022 as follows:

	Texon US$m	**Rhenoflex US$m**	**Total US$m**
Purchase consideration paid to previous owners	211.0	81.5	292.5
Cash and cash equivalents acquired	(16.8)	(4.5)	(21.3)
Acquisition of businesses – investing cash flows	**194.2**	**77.0**	**271.2**
External bank borrowings settled on completion – financing cash flows	24.4	38.1	62.5
Total cash out flow on respective acquisition dates	**218.6**	**115.1**	**333.7**

The repayment of the external bank borrowings of Texon and Rhenoflex on the respective completion dates of the acquisitions was presented as financing cash flows for the year ended 31 December 2022.

The total cash outflow for the acquisitions of Texon and Rhenoflex in the year ended 31 December 2022 was $346.0 million comprising the total cash outflow on the respective acquisition dates of $333.7 million plus transaction costs paid of $12.3 million.

For the period from 1 January 2022 to their respective acquisition dates, Texon and Rhenoflex revenue was $145.9 million and adjusted operating profit before exceptional and acquisition related items was $16.0 million.

13. Discontinued operations

Sale of European Zips business

On 30 June 2023 the Group entered into an agreement to sell its European Zips business to Aequita, a German family office. The sale was completed on 31 August 2023, the date which control passed to the acquirer. The European Zips business is included in the Apparel segment. The exit from the European Zips business was in line with Coats' previously announced strategic initiatives to optimise the Group's portfolio and footprint, and improve the overall cost base efficiency.

The results of the European Zips business has been presented as a discontinued operation in the consolidated income statement for the year ended 31 December 2023. Amounts for the year ended 31 December 2022 in the consolidated income statement have been represented to reclassify the results of the European Zips business from continuing operations to discontinued operations.

Sale of Brazil and Argentina

During the prior year ended 31 December 2022, the Group completed the sale of its business in Brazil and Argentina to Reelpar SA, an entity backed by a Sao Paulo Private Equity Firm. The sale was completed on 26 May 2022. The results of the business in Brazil and Argentina were presented as discontinued operation in the consolidated income statement for the year ended 31 December 2022.

a) Discontinued operations

The results of discontinued operations are presented below:

Year Ended 31 December	**2023**			2022*
	European Zips Total	European Zips	Brazil & Argentina	Total
	US$m	US$m	US$m	US$m
Revenue	**25.3**	46.2	26.3	72.5
Cost of sales	**(23.7)**	(37.8)	(22.6)	(60.4)
Gross profit	**1.6**	8.4	3.7	12.1
Distribution costs	**(2.6)**	(4.1)	(3.8)	(7.9)
Administrative expenses	**(2.0)**	(4.4)	(3.3)	(7.7)
Operating loss	**(3.0)**	(0.1)	(3.4)	(3.5)
Finance costs	**-**	-	(0.3)	(0.3)
Loss before taxation	**(3.0)**	(0.1)	(3.7)	(3.8)
Taxation	**-**	-	-	-
Loss from discontinued operations for the year	**(3.0)**	(0.1)	(3.7)	(3.8)
Loss on disposal (note 13 (b))	**(17.1)**	-	(68.9)	(68.9)
Exchange losses transferred to income statement on disposal	**(6.6)**	-	(15.0)	(15.0)
Total loss from discontinued operations	**(26.7)**	(0.1)	(87.6)	(87.7)

The operating loss before exceptional items of the European zips business for the year ended 31 December 2023 was $1.3 million (2022: operating profit before exceptional items of $2.2 million). Exceptional items charged to operating loss from discontinued operations was $1.7 million (2022: $2.3 million). As a result the operating loss of the European Zips business for the year ended 31 December 2023 was $3.0 million (2022: $0.1 million).

Notes to the consolidated financial information for the year ended 31 December 2023 (continued)

13. Discontinued operations (continued)

Exceptional items – discontinued operations

Exceptional items charged to loss from discontinued operations are set out below:

Year Ended 31 December	2023 US$m	2022* US$m
Strategic project costs:		
- Cost of sales	**(1.5)**	-
- Administrative expenses	**(0.2)**	(2.3)
Loss on disposal	**(17.1)**	(68.9)
Exchange losses transferred to income statement on disposal	**(6.6)**	(15.0)
Total exceptional items – discontinued operations	**(25.4)**	(86.2)

Strategic project costs – At the end of 2021 the Group commenced a strategic project to improve margins by optimising the portfolio and footprint and improving the overall cost base efficiency. As a result of these activities, exceptional restructuring costs million were incurred during the year ended 31 December 2023 of $1.7 million (2022: $2.3 million) which included severance costs incurred in connection with the closure of the zips plant in Poland and legal, advisers, closure and related costs. Non-cash impairment charges of property, plant and equipment and right-of-use assets incurred during the year ended 31 December 2023 were $0.8 million.

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

Loss per ordinary share from discontinued operations

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

Year Ended 31 December	2023 Cents	2022* Cents
Loss per ordinary share from discontinued operations:		
Basic loss per ordinary share	**(1.66)**	(5.80)
Diluted loss per ordinary share	**(1.64)**	(5.76)

Cash flows from discontinued operations

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

Year Ended 31 December	2023 US$m	2022* US$m
Net cash outflow from operating activities	**(4.0)**	(9.0)
Net cash outflow from investing activities	**(0.1)**	(0.6)
Net cash flows from discontinued operations	**(4.1)**	(9.6)

The cash outflow in respect of exceptional items included in discontinued operating activities for the year ended 31 December 2023 was $1.0 million (2022: $0.3 million).

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

13. Discontinued operations (continued)

b) Loss on disposal

The major classes of assets and liabilities disposed relating to the European Zips business was as follows:

	US$m
Property, plant and equipment	2.4
Right-of-use assets	0.8
Inventories	8.9
Trade and other receivables	8.3
Cash and cash equivalents	1.2
Total assets	**21.6**
Trade and other payables	(5.1)
Lease liabilities	(0.9)
Retirement benefit obligations	(1.1)
Provisions	(0.6)
Total liabilities	**(7.7)**
Net assets disposed	**13.9**
Consideration received	(1.9)
Disposal costs and completion adjustments	5.1
Exceptional loss on disposal – discontinued operations	**17.1**

The consideration received on the date of disposal of the European Zips business was $1.9 million and, net of cash and cash equivalents and bank overdrafts disposed, there was a net inflow of $0.7 million. Disposal costs of $2.7 million were paid in the year ended 31 December 2023 and as a result the cash outflow in the year ended 31 December 2023 on the sale of the European Zips business was $2.0 million.

The consideration received from the sale of the Mauritius and Madagascar business in January 2023 was $1.4 million and, net of cash and cash equivalents disposed of $0.6 million, there was a net inflow in the year ended 31 December 2023 of $0.8 million (see note 3). The results of the Mauritius and Madagascar businesses are included in continuing operations in the Apparel segment.

As a result of the disposals of the European Zips and Mauritius and Madagascar businesses, the total cash flow outflow in the year ended 31 December 2023 from the disposal of businesses was $1.2 million.

14. Alternative performance measures

The financial information in this statement contains both statutory measures and alternative performance measures which, in management's view, provide valuable additional information for users of the financial statements in understanding the Group's performance.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business. A number of these measures form the basis of performance measures for remuneration incentive schemes.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under United Kingdom adopted international accounting standards ('IFRS') and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies. A reconciliation of alternative performance measures to the most directly comparable measures reported in accordance with IFRS is provided below.

Notes to the financial information for the year ended 31 December 2023 (continued)

14. Alternative performance measures (continued)

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

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

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

The effects of currency changes are removed through restating prior year revenue and operating profit at current year exchange rates. The principal exchange rates used are set out in note 1.

Organic revenue growth on a CER basis measures the ability of the Group to grow sales by operating in selected geographies and segments and offering differentiated cost competitive products and services.

Adjusted organic operating profit growth on a CER basis measures the profitability progression of the Group. Adjusted operating profit is calculated by adding back exceptional and acquisition related items (see note 3 for further details).

Year Ended 31 December	**2023 US$m**	2022* US$m	% Decline
Revenue from continuing operations	**1,394.2**	1,537.6	(9%)
Constant currency adjustment	**-**	(49.8)	
Revenue on a CER basis	**1,394.2**	1,487.8	(6%)
Revenue from acquisitions[1]	**(119.3)**	-	
Organic revenue on a CER basis	**1,274.9**	1,487.8	**(14%)**

Year Ended 31 December	**2023 US$m**	2022* US$m	% Growth /(Decline)
Operating profit from continuing operations[2]	**184.0**	181.1	2%
Exceptional and acquisition related items (note 3)	**49.4**	51.6	
Adjusted operating profit from continuing operations	**233.4**	232.7	-
Constant currency adjustment	**-**	(7.5)	
Adjusted operating profit on a CER basis	**233.4**	225.2	4%
Operating profit from acquisitions[1]	**(16.9)**	-	
Organic adjusted operating profit on a CER basis	**216.5**	225.2	**(4)%**

[1] Revenue and operating profit from acquisitions relates to Texon and Rhenoflex for the period from January to July 2023 and January to August 2023 respectively so as to include like-for-like contributions from Texon (acquired July 2022) and Rhenoflex (acquired August 2022).

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

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

Notes to the financial information for the year ended 31 December 2023 (continued)

14. Alternative performance measures (continued)

b) Adjusted EBITDA

Adjusted EBITDA is presented as an alternative performance measure to show the operating performance of the Group excluding the effects of depreciation of property, plant and equipment and right-of-use assets, amortisation and impairments and excluding exceptional and acquisition related items.

Operating profit from continuing operations before exceptional and acquisition related items and before depreciation of property, plant and equipment and right-of-use assets and amortisation (Adjusted EBITDA) is set out below:

Year Ended 31 December	**2023 US$m**	2022* US$m
Profit before taxation from continuing operations	**155.8**	151.4
Share of profit of joint ventures	**(1.1)**	(1.1)
Finance income (note 4)	**(4.6)**	(2.6)
Finance costs (note 5)	**33.9**	33.4
Operating profit from continuing operations[1]	**184.0**	181.1
Exceptional and acquisition related items (note 3)	**49.4**	51.6
Adjusted operating profit from continuing operations	**233.4**	232.7
Depreciation of owned property, plant and equipment	**27.0**	26.1
Amortisation of intangible assets	**1.4**	1.7
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**261.8**	260.5
Depreciation of right-of-use assets	**18.8**	18.9
Adjusted EBITDA	**280.6**	279.4

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

Net debt including lease liabilities under IFRS 16 at 31 December 2023 was $470.9 million (2022: $499.8 million).

This gives a leverage ratio of net debt including lease liabilities to adjusted EBITDA at 31 December 2023 of 1.7 (2022: 1.8).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2023 was $384.1 million (2022: $394.4 million).

This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2023 of 1.5 (2022: 1.5).

The Group's proforma leverage on a pre-IFRS 16 basis at 31 December 2022 was 1.4 after increasing EBITDA of Texon and Rhenoflex from $11.0 million in the post-acquisition period to $30.1 million so as to include the acquisitions as if they had taken effect from 1 January 2022.

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

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

c) Adjusted effective tax rate

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

14. Alternative performance measures (continued)

c) Adjusted effective tax rate (continued)

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

Year Ended 31 December	**2023 US$m**	2022* US$m
Profit before taxation from continuing operations	**155.8**	151.4
Exceptional and acquisition related items (note 3)	**49.4**	52.7
Net interest on pension scheme assets and liabilities	**(4.4)**	0.5
Adjusted profit before taxation from continuing operations	**200.8**	204.6
Taxation charge from continuing operations	**55.0**	56.4
Tax credit in respect of exceptional and acquisition related items	**2.9**	3.7
Tax credit in respect of net interest on pension scheme assets and liabilities	**0.2**	0.5
Adjusted tax charge from continuing operations	**58.1**	60.6
Adjusted effective tax rate	**29%**	30%

d) Adjusted earnings per share

The calculation of adjusted earnings per share is based on the profit from continuing operations attributable to equity shareholders before exceptional and acquisition related items as set out below. Adjusted earnings per share growth measures the progression of the benefits generated for shareholders.

Year Ended 31 December	**2023 US$m**	2022* US$m
Profit from continuing operations	**100.8**	95.0
Non-controlling interests	**(17.6)**	(22.0)
Profit from continuing operations attributable to equity shareholders	**83.2**	73.0
Exceptional and acquisition related items net of non-controlling interests (note 3)	**48.8**	52.4
Tax credit in respect of exceptional and acquisition related items	**(2.9)**	(3.7)
Adjusted profit from continuing operations	**129.1**	121.7
Weighted average number of Ordinary Shares	**1,604,955,182**	1,515,999,205
Adjusted earnings per share (cents)	**8.04**	8.02
Adjusted earnings per share (growth %)	**0.3%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2023 is 1,604,955,182 (2022: 1,515,999,205), the same as that used for basic earnings per ordinary share from continuing operations (see note 7).

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

Notes to the financial information for the year ended 31 December 2023 (continued)

14. Alternative performance measures (continued)

e) Adjusted free cash flow

Net cash generated by operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below.

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

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

Year Ended 31 December	**2023 US$m**	2022* US$m
Change in net debt resulting from cash flows (free cash flow)	**15.0**	(247.1)
Acquisition of businesses (note 12)	**-**	346.0
Disposal of businesses (note 13)	**1.2**	17.0
Net cash outflow from discontinued operations (note 13)	**4.1**	9.6
Payments to UK pension scheme	**48.9**	42.7
Net cash flows in respect of other exceptional and acquisition related items	**12.6**	21.6
Issue of ordinary shares	**-**	(109.8)
Purchase of own shares by Employee Benefit Trust	**10.1**	2.1
Dividends paid to equity shareholders	**40.3**	33.0
Tax inflow in respect of adjusted cash flow items	**(1.7)**	(1.4)
Adjusted free cash flow	**130.5**	113.7

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1).

Coats Group plc

Notes to the financial information for the year ended 31 December 2023 (continued)

14. Alternative performance measures (continued)

f) Adjusted return on capital employed

Adjusted return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items adjusted for the full year impact of acquisitions divided by period end capital employed as set out below. Adjusted ROCE measures the ability of the Group's assets to deliver returns.

Year Ended 31 December	**2023 US$m**	2022* US$m
Operating profit from continuing operations before exceptional and acquisition related items adjusted for full year impact of acquisitions[1]	**233.4**	248.7
Non-current assets		
Acquired intangible assets	**349.6**	366.6
Property, plant and equipment	**243.2**	254.0
Right-of-use assets	**74.4**	95.4
Trade and other receivables	**19.5**	20.2
Current assets		
Inventories	**173.5**	201.5
Trade and other receivables	**292.0**	279.8
Current liabilities		
Trade and other payables	**(285.6)**	(273.3)
Lease liabilities	**(17.5)**	(18.5)
Non-current liabilities		
Trade and other payables	**(3.2)**	(26.3)
Lease liabilities	**(69.3)**	(85.5)
Capital employed	**776.6**	813.9
Adjusted ROCE	**30%**	31%

[1] Operating profit from continuing operations before exceptional and acquisition related items for the year ended 31 December 2022 has been adjusted to include Texon and Rhenoflex as if the acquisitions had taken effect from 1 January 2022. Including full year proforma results for the year ended 31 December 2022, rather than the actual consolidated results of these acquired businesses, better reflects the return from the capital position at the 2022 year end. Therefore this provides reliable and more relevant information on the financial performance of the Group to a user of the financial statements. Refer to note 3 for details of exceptional and acquisition related items.

* Represented to reflect the results of the European Zips business as a discontinued operation (see note 1). Amounts for non-current assets, current assets, current liabilities and non-current liabilities at 31 December 2022 exclude the discontinued European Zips business.

15. Retirement and other post-employment benefit arrangements

The net surplus for the Group's retirement and other post-employment defined benefit arrangements (UK and other Group schemes), on an IAS 19 basis, was $62.8 million as at 31 December 2022 (2022: $69.6 million).

15. Retirement and other post-employment benefit arrangements (continued)

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, had a surplus on an IAS 19 basis at 31 December 2023 of $102.2 million (31 December 2022: $117.5 million). The decrease in the surplus during the year ended 31 December 2023 of $15.3 million predominantly relates to net actuarial losses of $72.3 million. This was offset by employer contributions (excluding administrative expenses) of $42.9 million, a reduction in the withholding tax rate that would be levied prior to the future refunding of any surplus and foreign exchange translation movements.

Sensitivities regarding the discount rate and inflation assumptions used to measure the liabilities of the Coats UK Pension Scheme, 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:

		31 December 2023		31 December 2022
	+0.25%	**-0.25%**	+0.25%	-0.25%
	US$m	**US$m**	US$m	US$m
Discount rate	**(55.9)**	**58.7**	(51.4)	53.9
Inflation rate	**32.3**	**(36.6)**	28.0	(30.1)

An increase of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities decreasing by $208.7 million (31 December 2022: $192.3 million). A decrease of 1.0% in the discount rate would result in the Coats UK Pension Scheme liabilities increasing by $253.1 million (31 December 2022: $232.2 million). The above sensitivity analysis (on a IAS 19 basis) considers the impact on the scheme liabilities only and excludes any impacts on scheme assets from changes in discount and inflation rates. The Coats UK Pension Scheme is over 90% hedged against interest rate and inflation rate movements. Therefore on a Technical Provision basis, to the extent there is a change in the scheme liabilities due to movements in discount and inflation rates there would be offsetting impacts from the scheme assets due to the hedging in place.

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by $66.3 million (31 December 2022: $59.8 million).

Prior period restatement of pension surplus amounts

The Coats UK Pension Scheme accounting surplus under IAS 19 has been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. As at 31 December 2023 the Group determined that the accounting surplus should be recognised after deducting withholding tax, which would be levied prior to the future refunding of any surplus and would be payable by the Trustees of the Scheme. The pension surplus has been presented on a net basis at 31 December 2023. The Coats UK Pension scheme also had an accounting surplus under IAS 19 at 31 December 2022 and 31 December 2021 but as originally reported the accounting surplus was not recognised after deducting the withholding tax. Prior period amounts of the pension surplus included in the consolidated statement of financial position at these dates have been restated to recognise the withholding tax and present the accounting surplus on a net basis consistent with the accounting treatment at 31 December 2023. The withholding tax rates that were applied were 25% at 31 December 2023 and 35% at 31 December 2022 and 31 December 2021. In addition amounts for remeasurements of defined benefit schemes and the foreign currency Great Britain pound sterling translation impact to US dollars included in the consolidated statement of comprehensive income have also been restated. There has been no impact on either the Group’s profits or cash flows for the respective periods as a result of this remeasurement.

The Coats UK Pension Scheme accounting surplus under IAS 19 in the restated consolidated statement of financial position is $117.5 million and $70.2 million at 31 December 2022 and 31 December 2021 respectively. This represents a decrease of $63.2 million and $37.8 million at 31 December 2022 and 31 December 2021 respectively from the original reported amounts of $180.7 million and $108.0 million.

Notes to the financial information for the year ended 31 December 2023 (continued)

15. Retirement and other post-employment benefit arrangements (continued)

Prior period restatement of pension surplus amounts (continued)

Pension surplus amounts at 31 December 2022 and 31 December 2021 have also been restated for the US pension scheme to reflect a change in measurement. As originally reported the IAS 19 accounting surplus for the US pension scheme was not recognised in full but recognised based on the expected utilisation of the accounting surplus for transfers to a US medical plan and future pension scheme administrative costs. Prior period amounts have been restated to recognise the accounting surplus in full on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund net of applicable US taxes. There is no impact on either profits or cash flows for the year ended 31 December 2022.

The US pension scheme accounting surplus under IAS 19 in the restated consolidated statement of financial position is $40.4 million and $53.4 million at 31 December 2022 and 31 December 2021 respectively. This represents an increase of $27.4 million and $41.8 million at 31 December 2022 and 31 December 2021 respectively from the original reported amounts of $13.0 million and $11.6 million.

Amounts as of 31 December 2022 and 31 December 2021 and for the year ended 31 December 2022 have been restated as set out below:

	As reported	UK Pension Adjustment	US Pension Adjustment	As restated
	US$m	US$m	US$m	US$m
Consolidated statement of financial position				
31 December 2022				
Non-current assets:				
Pension surpluses	222.7	(63.2)	27.4	186.9
Total assets	1,924.6	(63.2)	27.4	1,888.8
Deferred tax liabilities	(65.3)	-	(12.9)	(78.2)
Total liabilities	(1,225.3)	-	(12.9)	(1,238.2)
Net assets and total equity	699.3	(63.2)	14.5	650.6
31 December 2021				
Non-current assets:				
Pension surpluses	159.7	(37.8)	41.8	163.7
Total assets	1,511.3	(37.8)	41.8	1,515.3
Deferred tax liabilities	(6.8)	-	(19.7)	(26.5)
Total liabilities	(927.2)	-	(19.7)	(946.9)
Net assets and total equity	584.1	(37.8)	22.1	568.4
Consolidated statement of comprehensive income				
Year ended 31 December 2022				
Remeasurements of defined benefit schemes	59.8	(30.1)	(14.4)	15.3
Tax on items that will not be reclassified	(1.4)	-	6.8	5.4
Exchange differences on translation of foreign operations	(31.9)	4.7	-	(27.2)
Net comprehensive income and expense for the year	48.8	(25.4)	(7.6)	15.8

Coats Group plc

Notes to the financial information for the year ended 31 December 2023 (continued)

16. Directors

The following persons were, except where noted, directors of Coats Group plc during the whole of the year ended 31 December 2023 and up to the date of this report:

D Gosnell OBE	
R Sharma	
N Bull	
J Callaway	
S Highfield	(Appointed 1 November 2023)
H Lawrence	(Resigned 31 March 2023)
H Lu	
S Murray	
F Philip	
J Sigurdsson	

On behalf of the Board

D Gosnell
Chair
6 March 2024

United Kingdom

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