

# Annual Report 2013

Guinness Peat Group plc

## Our Business

Guinness Peat Group plc has now completed its investment portfolio realisation programme. Total cash proceeds from divestments since 1 January 2011 are £698 million.

The Group's remaining operating business is Coats plc, the world's leading industrial thread and consumer crafts business.

For more information about Guinness Peat Group plc – visit **[www.gpgplc.com](http://www.gpgplc.com)**

For more information about Coats – latest news and products, financial performance, business operations, CR approach and heritage – visit **[www.coats.com](http://www.coats.com)**



# 2013 Financial Summary

for the year ended 31 December 2013

## GPG

### Portfolio divestments

# £240m

1 January 2013 to  
31 December 2013  
(cumulative from 1 January  
2011 £698m)

### Share buybacks

# £45m

(2012 £25m)

### Middle market share price

# 30.0p

(2012: 30.5p)

### Shareholders' funds

# £444m

(2012: £434m)

### Net asset backing per share

# 31.52p

(2012: 27.73p)

## Coats

### Revenue

# \$1,704m

(£1,089m)

(2012: \$1,653m / £1,043m)

### Pre-exceptional operating profit<sup>1,3</sup>

# \$133m

(£85m)

(2012: \$121m / £76m)

### Attributable profit / (loss)<sup>3</sup>

# \$29m

(£19m)

(2012: \$(146)m / £(92)m)

### Free cash flow<sup>2</sup>

# \$45m

(£29m)

(2012: \$45m / £28m)

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1 Before reorganisation, impairment and other exceptional items (see note 3 to Coats Financial Information)

2 Change in net debt resulting from cash flows (2012: pre-EC Fine), see page 117

3 Restated to reflect the impact of the adoption of IAS 19 (revised) "Employee Benefits"

#### Reporting currency explanation:

GPG's reporting currency is £UK. Coats' reporting currency is \$US.

#### Explanatory note for currency conversion:

Headline numbers for Coats have been presented in £UK using a conversion rate of 1.565 to £1 (2012: 1.585 to £1). All other figures within the Coats business review are presented in \$US, the reporting currency of the company.

The past year has been frustrating for GPG. We completed the asset realisation process on time and on value expectations only to have the further announced intention to distribute surplus funds, while maintaining a listing for the Coats business, delayed by regulatory intervention in the UK

**Rob Campbell** Chairman

The Board and management continue to engage, to the maximum extent possible, with the UK Pensions Regulator ("tPR"), and to maintain open dialogue with the trustees of the relevant pension schemes. It has always been and remains our intention to do the right thing, balancing our continuing obligations to the Group's ongoing schemes with our clear commitment to enhance shareholder returns and we believe a fair and timely resolution is in the interests of all concerned.

At the time of my half year report in August 2013 there were various positive messages: progression of the investment portfolio realisation programme; encouraging Coats trading results; and development of the Coats board transition. The regulatory intervention in the UK by tPR remains the only delay to the successful completion of our stated plan.

Further detail regarding the portfolio realisations is provided on page 6 of this report.

A full description of the performance of Coats during 2013 can be found on pages 12 to 30. Reported turnover for the business of £1,089 million (US\$1,704 million) represents year-on-year growth in GBP terms in excess of 4% and the net profit attributable to GPG of £19 million (US\$29 million) compares to a loss in 2012 of £92 million (US\$146 million). Coats also continues to generate improving levels of cash flow, with free cash flow of £29 million (US\$45 million) having been

generated during the year (2012, excluding payment of the EC fine and interest of £110 million (US\$175 million): £28 million (US\$45 million)).

During 2013 we announced two important non-executive appointments to the Coats board. Mike Clasper joined that board on 1 September as Chairman and Ruth Anderson joined with effect from 2 January 2014.

I have stated previously the Board's unchanged intention to treat the Group's ongoing pension schemes fairly while ensuring that this is done so in the light of our obligations to all stakeholders. We have openly disclosed our acceptance of the need for the Group to retain a portion of the investment portfolio realisation proceeds to support the Staveley and Brunel schemes and the precise nature and quantum required will be determined through the process in which we are involved with tPR and the respective trustees.

We have now received from tPR formal notices ("Warning Notices") which state that in its opinion it is reasonable to require the Group to provide further financial support to both the Brunel and Staveley schemes and we are working with our advisers to develop responses. The Board is exploring all options with the aim of resolving these matters as efficiently as possible without unnecessarily compromising shareholder interests. It is still too early to advise shareholders as to the likely outcome and, if the matter is not

settled through negotiation, any hearing before tPR's Determinations Panel (the "Panel") will not take place earlier than the second half of this year.

tPR notified the Board on 29 November 2013 that it would not be in a position to conclude its initial investigation and determine whether or not to issue a Warning Notice in respect of the Coats UK Pension Plan by the year end. tPR has still to reach a decision on this.

Any decision on the future capital structure of Coats and further cash distributions to shareholders continues to be deferred while these matters are being resolved.

The Board fully shares the natural frustration of shareholders about this process and its prevention of further surplus distributions to shareholders.

Conclusion of the capital management realisation initiatives and transition has been delayed while the regulatory process continues. We continue to work on this aspect with legal advice. The main principle being applied is that we will do nothing to impact the regulatory process adversely, while also ensuring that the Coats business has the right strategic direction and corporate governance in place.

## Reported (Consolidated) Financial Results

### Movements in shareholders' funds

Shareholders' funds, despite a share buyback of £45 million (NZ\$91 million), have increased during the year by £10 million (NZ\$20 million) to £444 million (NZ\$896 million):

	Year ended 31 December 2013		Year ended 31 December 2012	
	£m	£m	£m	£m
Opening shareholders' funds		434		602
Shareholders' returns				
– Share buyback		(45)		(25)
Profit/(loss) for the year		23		(29)
Movements in unrealised gains reserve				
– Gain realised in the period (recycled through the Income Statement)	(16)		(40)	
– Net unrealised movements on AFS investments	–		(13)	
– Reclassification	1		–	
– Deferred tax movement	1		4	
		(14)		(49)
IAS19 adjustments				
– GPG schemes	22		(12)	
– Coats	85		(2)	
		107		(14)
Foreign currency movements				
– Coats net losses	(12)		(4)	
– Other group net losses arising in the year	(24)		(8)	
– Total net losses arising in the year	(36)		(12)	
– Historical net gains recycled to the Income Statement	(30)		(39)	
– Reclassification	(1)		–	
		(67)		(51)
Other, mainly hedging		6		–
<b>Total £ million</b>		<b>444</b>		<b>434</b>
<b>Total NZ\$ million</b>		<b>896</b>		<b>876</b>

The major components of the change in shareholders' funds are the improved IAS19 funding position of the Group's employee benefit obligations and Coats' trading results (£19 million) offset by net foreign exchange losses caused by the general strengthening of GBP (£36 million), the share buyback (£45 million), and GPG's Parent Group overheads, including costs of responding to tPR's investigation into the GPG UK defined benefit pension schemes.

The net asset backing per share has, as a consequence of the events arising in the year, increased from 27.7p (NZ\$0.56) to 31.5p (NZ\$0.64).



# GPG Chairman's Statement continued

## Consolidated Income Statement

	Year ended 31 December 2013		Year ended 31 December 2012	
	£m	£m	£m	£m
<b>Continuing activity</b>				
Coats				
– Attributable profit before exceptionals		24		13
– EC fine and related interest		–		(76)
– Other exceptional items		(5)		(27)
		19		(90)
Parent Group				
– Overheads	(44)		(23)	
– Foreign exchange gains/(losses)	1		(2)	
– Other income	1		1	
– Net interest expense	–		(12)	
		(42)		(36)
Net loss from continuing activity		(23)		(126)
<b>Discontinued activity</b>				
Coats		–		(2)
Parent Group subsidiary and associated undertakings and joint ventures		30		62
Investment activity				
– Gains realised in the period (recycled from the unrealised gains reserve)	11		39	
– Dividend income	5		6	
– Impairments	(1)		(3)	
		15		42
Foreign exchange losses		(1)		–
Other income		3		–
Parent Group tax charge		(1)		(5)
Net profit from discontinued activities		46		97
<b>Net profit/(loss) for the period attributable to GPG shareholders £ million</b>		23		(29)
<b>Total NZ\$ million</b>		46		(59)

## Simplified Balance Sheet

GPG's financial position on a non-statutory basis is shown in the Simplified Balance Sheet below:

	31 December 2013		31 December 2012	
	£m	£m	£m	£m
Net held for sale assets		1		222
Current asset investments		–		9
Total investments		1		231
Cash		383		243
GPG assets, excluding Coats		384		474
GPG Pension Schemes		(56)		(74)
Other sundry Parent Group net liabilities		(20)		(14)
		308		386
<b>Coats</b>				
– Other net assets	457		481	
– Net debt	(199)		(226)	
– Employee benefit obligations	(122)		(207)	
		136		48
<b>Shareholders' funds £ million</b>		444		434
<b>Shareholders' funds NZ\$ million</b>		896		876
<b>NAV per share (p)</b>		31.5		27.7
<b>NAV per share (NZ¢)</b>		63.6		55.9

## Overview of GPG's Key Net Asset Value Components

### Investment Portfolio (excluding Coats)

The Group announced on 3 October 2013 the completion of the value realisation programme. Total cash generated since 1 January 2011 was £698 million (NZ\$1,408 million) of which £240 million (NZ\$484 million) arose in 2013. The proceeds generated, including dividends and other forms of distribution, should be compared with the approximate portfolio market value shortly before the announcement of the realisation strategy of £677 million (NZ\$1,366 million). A schedule showing the proceeds generated in 2013 from disposals is included on page 6 of this report.

### Cash at bank

At 31 December 2013 the GPG Parent Group had cash of £383 million (NZ\$773 million) (2012: £243 million (NZ\$490 million)). The increase in cash during the year is primarily as a result of the proceeds of the portfolio realisation programme partially offset by share buybacks (£45 million (NZ\$91 million)), operating expenses and the impact of the general strengthening of GBP.

### Pensions

The carrying values of the Coats UK Pension Plan and the two GPG pension schemes, Brunel and Staveley, (together the "UK Pension Schemes") on an IAS19 financial reporting basis have significantly improved from the position at 31 December 2012. This improvement is mainly due to strong investment performance during the year.

The period end positions are set out below:

	31 December 2013 £m	31 December 2012 £m
<b>IAS19 deficit</b>		
Coats UK Pension Plan	78	161
Other Coats net employee benefit obligations	44	46
Total Coats net employee obligations	122	207
Brunel	28	38
Staveley	28	36
<b>Total £ million</b>	<b>178</b>	<b>281</b>
<b>Total NZ\$ million</b>	<b>359</b>	<b>567</b>

#### The UK Pensions Regulator's investigations

As announced on 23 December 2013, GPG has received Warning Notices from the Executive of tPR in respect of the Brunel and Staveley schemes. These detail the Executive's arguments as to why it believes it would be reasonable for the Panel to impose a regulatory direction (Financial Support Direction ("FSD")) on one or more GPG group companies requiring them to put in place further financial support for each of the schemes. The Company and its advisors are in the process of developing a formal response to each Warning Notice. Once these responses are complete and submitted, tPR's case team will decide whether to submit the Warning Notices in final form, together with the recipients' defence, to the Panel for it to determine if FSDs should be imposed or to withdraw them. The form of any such further financial support required would not be specified by the Panel. The recipients would need to put a proposal to tPR which would have to be approved as reasonable. In practice such arrangements would first be agreed with the trustee of the relevant scheme. If one or more FSD is issued by the Panel the recipients would have right of appeal to the Upper Tribunal. Such an appeal process, if pursued, would be unlikely to complete before the end of 2015.

No Warning Notice dealing with the Coats UK Pension Plan has been received to date. The three Coats sponsor companies have been requested to submit calculations to tPR of their respective resources as at 31 December 2012. Any Warning Notice can only be issued if these calculations show one or more of the companies to have been "insufficiently resourced" and tPR considers it "reasonable" to issue the Warning Notice. TPR has stated it is

seeking to conclude its investigation into whether or not to issue a Warning Notice in relation to the Coats UK Pension Plan as soon as practicable.

#### Coats' triennial funding valuation

Notwithstanding the pensions investigations, agreement was reached during the year with the trustee of the Coats UK Pension Plan on the April 2012 funding valuation. The agreed funding deficit was £215 million (NZ\$434 million) compared with £101 million (NZ\$204 million) at the time of the April 2009 valuation. Deficit reduction payments of £14 million (NZ\$28 million) per annum (previously £7 million (NZ\$14 million) per annum) commenced in November 2013 for a period of approximately 14 years. In order to ensure the trustee of the scheme felt able to take full account of the support provided by the Coats Group in assessing the covenant supporting the scheme, Coats plc agreed as part of the 2012 funding valuation to provide the trustee with a Parent Company Guarantee. The deficit reduction payments will be subject to review at the next triennial valuation, which is due with effect from 1 April 2015.

#### Brunel triennial funding valuation

The Brunel scheme is due by 30 June 2014 to complete a funding valuation with an effective date of 31 March 2013. This valuation process has commenced, but understandably has been impacted by tPR's investigation process.

#### Staveley funding valuation

The next triennial valuation for the Staveley scheme was scheduled to be as at 5 April 2014. However, the trustee of that scheme has decided, in the light of tPR's investigation, to accelerate the timetable and has called instead for a funding valuation as at 31 December 2013.

#### Overhead costs

Net operating costs in 2013 for the Parent Group have been significantly impacted by the work of advisors relating to tPR's investigation into the UK Pension Schemes. Total net operating costs of £44 million (NZ\$89 million) compare with £23 million (NZ\$46 million) for 2012. The figure for 2013 includes costs associated with responding to tPR's investigations of £10 million for the period to 31 December 2013 and £8 million for work the Group is already committed to in 2014. Also included within overheads are advisory costs relating to the value realisation programme of £2 million (NZ\$4 million) and staff related costs of £13 million (NZ\$26 million) (2012: £11 million (NZ\$22 million)). The staff costs reflect the acceleration of investment team terminations and associated incentives following completion of the asset realisation programme.

Downsizing and migration of support services to Coats has been a focus of 2013. As at 31 December 2013 the permanent headcount, excluding Directors, of GPG had reduced to seven (2012:15), six dealing with finance, company secretarial and administration and one support staff member.

# GPG Chairman's Statement continued

## Capital Management

The share buyback programme announced during 2012 was completed during the first quarter of 2013 and the Board took the decision in July 2013 that no further returns of capital would be progressed during the period of uncertainty relating to tPR's investigation. There are also no current intentions for the Board to announce a dividend.

The GBP and AUD balances are for known short and long term obligations of the Group. The remainder is held in either NZD or USD and the Board has no plans at present to change this allocation.

At the period end the Parent Group cash was held in the following currencies:

	31 December 2013 £m	31 December 2012 £m
GBP	145	114
AUD	5	26
NZD	127	103
USD	106	–
<b>Total £ million</b>	<b>383</b>	<b>243</b>
<b>Total NZ\$ million</b>	<b>773</b>	<b>490</b>

## Board Changes and Structure

On 6 March 2013 Waldemar Szlezak was appointed as a Non-Executive Director of the Company. Following his appointment, the Board comprised six Directors, including the independent Chairman and two independent directors. On 20 February 2014 Mike Clasper was appointed as an independent Non-Executive Director of the Company.

The composition of the Board is in line with the UK Corporate Governance Code issued by the UK Financial Reporting Council and provides a Board of appropriate calibre and experience to pursue the current strategy, while at the same time providing a suitable

corporate governance framework. In addition, the Board has the appropriate committee structures and procedures, including a board performance review.

## Annual General Meeting

The Annual General Meeting is intended to be held on Thursday, 22 May 2014 in London. Further details of the exact location and timing will be provided in the Notice of Meeting which GPG plans to send to shareholders in April 2014.

## Rob Campbell

Chairman, Guinness Peat Group plc  
25 February 2014

## Appendix

Net proceeds from portfolio divestments from 1 January 2011 to 31 December 2013

	£million	NZ\$million
2011 Disposals	144	291
2012 Disposals	314	633
2013 Disposals		
Tower	82	165
Ridley	38	77
CIC Australia	35	71
Capral	27	55
Prime Ag	26	52
Tandou	10	20
AV Jennings	6	12
	<b>224</b>	<b>452</b>
Disposals less than £5 million, dividend receipts and other investment activity	16	32
<b>Total generated in 2013</b>	<b>240</b>	<b>484</b>
<b>Grand total</b>	<b>698</b>	<b>1,408</b>

Note: All NZ\$ comparatives to £ amounts are for illustrative purposes only, based on the NZ\$:GBP exchange rate on 31 December 2013, NZ\$2.0175: £1.00.



# This report provides shareholders with a review of past performance, the Board's objectives for the Group, the principal risks faced and their impact on future prospects. It also addresses the Board's responsibility to report on Corporate Responsibility and Diversity

GPG shareholder value reflects ever more closely the underlying performance of its remaining operating subsidiary, Coats. Detail relating to Coats' strategy, business model and performance can be found on pages 12 to 30.

## Strategy and business model

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

As explained in the Chairman's Statement, the asset realisation process was completed during 2013 and the Group is now primarily comprised of the Coats group, central cash balances of £383 million and two UK defined benefit pension schemes (the Brunel and Staveley schemes). The Group is managed with two clear operational levels:

- > the GPG Board has overall responsibility to shareholders for stewardship of the Group; including the central treasury, tPR's investigations and capital management and structuring; and
- > the Coats board has responsibility for setting the detailed strategy of the Coats business and monitoring performance against that strategy.

Despite the successful execution of the asset realisation programme, the completion of the plan announced in 2011 has been delayed by tPR's regulatory investigations and the Chairman's Statement contains a full update on this process and the costs incurred to date in dealing with this issue, see pages 2 to 6.

As a consequence the Board has taken the decision, following the completion in the first quarter of 2013 of the £70 million share buy-back programme, not to progress further returns of capital during the period of uncertainty relating to tPR's investigations. The Board and management continue to engage with tPR and to maintain open dialogue with the trustees of the relevant Group pension schemes. It remains the GPG Board's strategic ambition to treat the Group's ongoing UK pension schemes fairly in light of all obligations to other stakeholders, to complete the strategy announced in 2011 and to provide Coats with a path to a future as an independent listed group.

The strategy being followed by the Coats board is explained on page 17.

## Operational performance

The financial performance of the Group as a whole is dealt with by the Chairman in his statement on pages 2 to 6. Shareholders' funds increased during the year by £10 million to £444 million, with the favourable movement in the IAS19 accounting position of the Group's employee benefit obligations (£107 million) and Coats' trading performance (£19 million profit) being offset by the impact of strengthening GBP on the Group's underlying asset values (£36 million loss), Parent Group overheads (£44 million) and the share buyback programme (£45 million in 2013). The Parent Group's cash balances increased from £243 million to £383 million and as noted above the investment portfolio realisation programme was satisfactorily completed.

The performance of Coats during 2013 is described by the management of that business in detail on pages 12 to 30. Reported sales increased in US dollar terms by 3% year-on-year to US\$1,704 million (up over 4% in GBP terms to £1,089 million), with both the Industrial and Crafts businesses growing overall at that rate.

Coats' reported operating profit after exceptional items of US\$124 million (£79 million) compared to a loss for 2012 of US\$11 million (£7 million). Exceptional items in 2012 included the impact of the EC Fine (US\$85 million). The major exceptional items in 2013 were significant property disposal profits (US\$20 million, 2012: US\$2 million loss) and reorganisation costs (US\$23 million, 2012: US\$40 million). The reorganisation costs primarily related to the restructuring of operations in EMEA, but also included certain projects in Latin America following the weakening trading performance in that geographic region.

Coats' pre-exceptional operating performance has been covered by the commentary from management. Reported operating profits on this measure have increased by US\$12 million and like-for-like operating profits (2012 restated at 2013 exchange rates) by US\$14 million.

The profit attributable to GPG's shareholding generated by Coats during 2013 was US\$29 million (£19 million) compared to a loss in 2012, after deducting the impact of the EC Fine (US\$120 million), of US\$146 million (£92 million).

## Key Performance Indicators

GPG is an investment vehicle and over time its key indicator of success has been the growth in its reported net asset value. The reported net asset value per share in 2013 increased from 27.7p to 31.5p (13.8%). A significant factor in the determination of net assets per share is the IAS 19 employee benefit obligations. These are based on market conditions at each period end including the yield on corporate bonds.

The Board has also monitored the value realisation programme against the value of the portfolio at the time the strategy was announced. As noted in the Chairman's Statement the cumulative proceeds of £698 million compare to a market value on 1 January 2011 of the investment portfolio of £677 million.

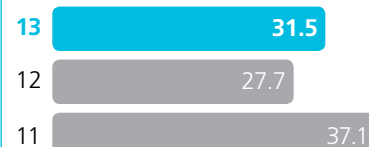
A key element of the value realisation strategy was returning capital to shareholders. In 2012 a share buyback was announced and that was completed in March 2013. The total value of shares acquired on market was £70 million. However, given the events during the year relating to tPR, these indicators do not fully convey the development of the Group during the past year.

GPG monitors the performance of Coats with a particular focus on financial measures; the primary indicators being turnover, pre-exceptional operating profit, attributable profit and free cash flow. During 2013, Coats increased reported turnover in USD by 3% (5% on a constant currency basis) and pre-exceptional operating profit by 10%, converted an attributable loss of \$146 million into a profit of \$29 million and maintained free cash flow at \$45 million.

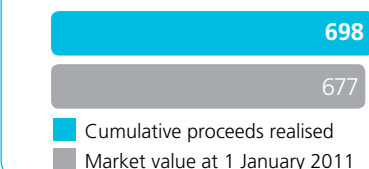
## Linking performance and reward

Given the progress made on the GPG asset realisation programme, the performance of the Group reflects more and more closely the performance of Coats. With this and the overall Group strategy in mind, the Board through the GPG Remuneration Committee has developed a Remuneration Policy which provides an appropriate framework of incentives for the executive management of the Group. This Policy is set out on pages 40 to 46.

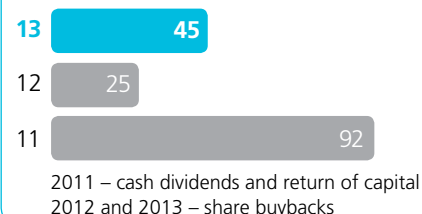
### Net asset value/Share (p)



### Portfolio realisation (£m)



### Shareholder returns (£m)



## Principal risks

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

Risk	Nature of Risk	Action/Mitigation
<b>Investment portfolio realisation programme</b>	The risk of being perceived a forced seller of investments had the potential to impact materially upon the quantum of proceeds achieved by the investment team.	The Board addressed this risk by publicly stating the assets would only be sold when acceptable offers were available and indicating that shareholder value maximisation was a key focus. This process is now complete.
<b>Employee defined benefit obligations – accounting impact and regular funding</b>	<p>The Group has a number of employee defined benefit arrangements in place, the most significant being:</p> <ul style="list-style-type: none"> <li>&gt; three UK pension schemes: Coats, Brunel and Staveley; and</li> <li>&gt; the Coats North America plan.</li> </ul> <p>The UK schemes can impact the Group on various levels. Given their size, and particularly that of the Coats Pension Plan, these schemes can have a material impact on the Group's reported results. Under IAS19 (revised) the Consolidated Income Statement includes an administrative charge and a finance cost relating to these schemes and variations in these charges can give rise to fluctuations in reported earnings. In addition, changes in the IAS19 accounting surpluses and deficits in the schemes impact the level of shareholders' funds.</p> <p>When funding deficits arise this can have a cash flow impact.</p> <p>The net accounting and funding positions of these arrangements are particularly sensitive to real interest rates and the investment performance of any segregated assets.</p>	<p>Managing the funding position of the three UK pension schemes is the primary responsibility of their respective Trustees. The strategy followed by each Trustee targets the long term funding position of its scheme. Each has used corporate bonds to fund short term liabilities. Equities and other return-seeking assets are held for the longer term. These provide a natural hedge respectively for short term obligations and medium and long term inflation risk. Coats has in place a short term inflation hedging programme. In addition, the trustees have implemented formal de-risking strategies with thresholds for switching return-seeking assets into bonds.</p> <p>As reported on page 5, the 2012 funding valuation for the Coats UK Pension Plan was completed during the year and resulted in the scheme deficit increasing from £101 million to £215 million. As of November 2013 a new recovery plan commenced for that scheme and the rate of contributions increased from that date from £7 million per annum to £14 million per annum. In addition, as part of agreeing the deficit of £215 million and a 14 year recovery plan, Coats plc agreed to provide the scheme with a Parent Company Guarantee.</p> <p>The Brunel scheme is in the process of completing its 2013 triennial valuation. There was no deficit in 2010 and, hence, there is currently no recovery plan. However, the Board expects a recovery plan to result from the current exercise.</p> <p>The Staveley scheme last had a triennial valuation as at 5 April 2011. The 2011 valuation resulted in a one-off payment of £5 million being made to the scheme in July 2012 and for an eight-year recovery plan at an annualised rate of £1.3 million. The trustee has called for the next funding valuation three months early, with an effective date of 31 December 2013.</p> <p>The valuation processes for both the Brunel and Staveley schemes are being progressed but understandably are being impacted by tPR's investigations process.</p> <p>The Coats North America plan has a funding surplus and the investment strategy followed includes a matching asset pool which should substantially reduce the risk of a funding shortfall arising in the future.</p>
<b>Employee defined benefit obligations – regulatory investigation</b>	As previously reported and described further in the Chairman's Statement on pages 2 to 6, tPR has commenced investigations into the Group's three UK defined benefit pension schemes and has to date issued Warning Notices on two (Brunel and Staveley).	The Board has always taken legal and actuarial advice in its dealings with these schemes and continues to do so. The Group has a pro-active approach to addressing the risk to shareholder value represented by these schemes and tPR's investigation. The Board is exploring all options with the aim of resolving tPR's investigations as efficiently as possible without unduly compromising shareholders' interests.

Risk	Nature of Risk	Action/Mitigation
<b>Treasury concentration risk</b>	The realisation of the Group's investment portfolio combined with the deferment in returning capital to shareholders while there is uncertainty surrounding tPR's investigation has resulted in a significant proportion of shareholder value being represented by cash.	The Board is cognisant of the potential for this to give rise to concentration risk. The Board is provided on a weekly basis with a report of cash balances by bank, jurisdiction and currency. In addition it regularly reviews these risks at Board meetings to ensure appropriate mitigating action is being taken.
<b>Foreign currency exposure</b>	<p>The Group's principal assets are now its cash holdings and its investment in Coats. The Coats business' activities are primarily denominated in USD, although it has major asset bases in other currencies, including the Indian Rupee and the Brazilian Real.</p> <p>Coats takes action to protect its anticipated transactional currency exposure but does not hedge its assets and liabilities and neither does GPG. GPG holds its cash primarily in GBP, NZD and USD. The GBP balance is held to cover known liabilities whereas the NZD and USD represent the currently surplus funds.</p> <p>Given the investigation being carried out by tPR, the Board faces the potential of some as yet unquantified obligations to provide further financial support to the Group's UK pension schemes. The size and nature of these obligations will only be known once the process with the respective scheme trustees and tPR has been completed. If all rights of appeal are pursued, this process would be unlikely to complete before the end of 2015. This in turn means the Board is currently not able to determine with certainty the quantum of future returns to shareholders.</p>	The Board regularly reviews its currency exposures and has taken steps to ensure transparent reporting to shareholders of the positions held.
<b>Human Resources</b>	Shareholder value is heavily dependent on key individuals both within the Parent Group and Coats.	The Board has recognised the risk to delivery of the strategic aim from key staff leaving during the process. It regularly reviews the appropriateness of its incentive and reward arrangements and has established retention and/or incentive plans to address this risk.
<b>Coats</b>	Given the simplification of GPG's business model, Coats now represents the major portion of the Group's business risk.	<p>Coats faces a wide range of commercial and operational risks and, as noted above, the management of this business is delegated by the GPG Board to the Coats board. Coats manages these risks through various structures, but most particularly through its own Risk Management Committee and Internal Audit Function. The Coats Head of Internal Audit attends meetings of and reports to the GPG Audit, Finance and Risk Committee.</p> <p>The key risk areas identified and managed through this process are described in more detail on pages 28 to 30.</p>

## Prospects

From a trading perspective the prospects for GPG will reflect the future performance of Coats. Much of the activity of the Coats business is closely aligned with trends in GDP and consumer expenditure. The geographic spread of Coats gives rise to varying patterns of performance in the different parts of that organisation; with Asia expected to provide the greatest impetus for growth, followed by North America and Europe. Brazil, and therefore the Latin America region, is expected to be relatively flat in the coming year. Given the general GDP trends in Coats' higher growth markets, it is anticipated that these parts of the business will also encounter inflationary pressures. Coats has demonstrated an ability to manage the impact of such factors through productivity improvements, procurement savings and pricing initiatives. Parts of the business are also reliant on fashion trends and management has identified Crafts handknitting yarn as a product sector that is likely to see reduced volumes in 2014 limiting growth in the Crafts division.

Beyond the trading prospects of the Coats business, the single most significant factor affecting the Group's prospects is the investigation being performed by tPR. As previously reported, it is not possible for the Board to provide an indication of how this matter will finally be resolved. However, the Board's intention is to treat the Group's ongoing UK pension schemes fairly while ensuring this is done so in light of our obligations to all stakeholders.

## Corporate Responsibility

The focus of Corporate Responsibility within GPG lies with its remaining operating subsidiary, Coats, and the Coats Corporate Responsibility programme was first reported in detail by GPG in its 2012 Annual Report. Further information regarding Coats' approach to Corporate Responsibility, including how it links to business strategy, can be found on page 23 and this includes that company's approach to environmental matters, employees and social, community & human rights issues.

Detail is provided on greenhouse gas emissions on pages 23 and 33.

## Diversity

Having considered the requirements of the Code and of the ASX Governance Principles, it is the Company's practice to treat all appointments equally and on merit, regardless of ethnicity or gender. That said, the GPG Board does not have a formal policy on diversity. However, Coats already employs a diverse workforce and has a stated ambition to increase the number of women at more senior levels.

Details of the make-up as at 31 December 2013 of the Group's employees by gender are set out in the following table. Senior managers are directors of subsidiary companies, those responsible for the leadership and management of our business operations or experienced professionals working in support functions.

	Main board		Senior managers of the Group		Parent Group employees		Group employees	
	No.	%	No.	%	No.	%	No.	%
Male	6	100	291	82	5	71	11,814	58
Female	–	–	62	18	2	29	8,437	42
<b>Total</b>	<b>6</b>	<b>100</b>	<b>353</b>	<b>100</b>	<b>7</b>	<b>100</b>	<b>20,251</b>	<b>100</b>

Within the Coats business, 42% of its global workforce, 20% of its senior management excluding directors and 16% of the directors of its group companies are female. In addition, Ruth Anderson joined the board of Coats plc on 2 January 2014. Ruth is a Non-Executive Director and Audit Committee Chair for Ocado Group plc and Travis Perkins plc following a distinguished career with KPMG LLP.

Of the 20,251 employees within the Group at 31 December 2013, all but 7 are Coats employees. Coats carries out an annual engagement survey amongst its employees and has a policy of responding to the feedback this generates.

Approved by the Board on 27 March 2014

**Rob Campbell**, Chairman



## Coats at a Glance

With a rich heritage dating back to the 1750s, Coats is the world's leading industrial thread and consumer textile crafts business, at home in over 70 countries, employing more than 20,000 people across six continents

### No.1

**in sewing thread**

Over 20% market share

### No.2

**in global zips**

Fastest growing global manufacturer

### No.1

**in textile crafts**

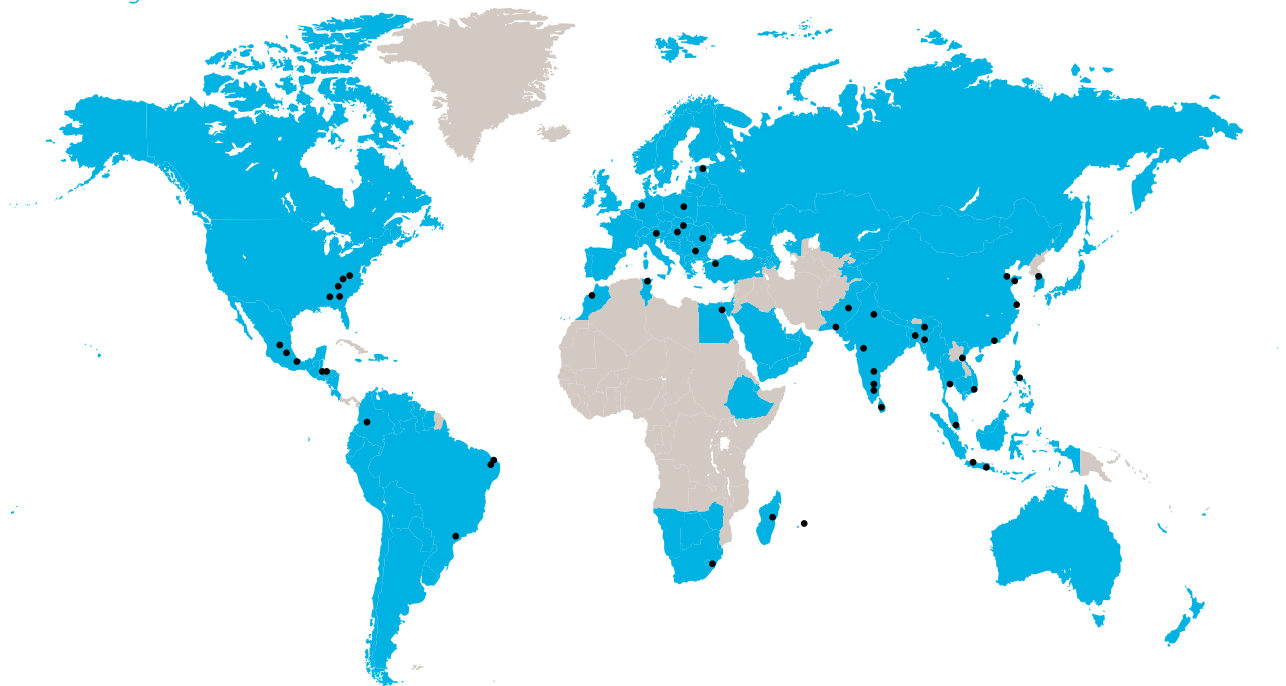
Largest global player

### Global leader

**in Speciality**

High technology threads and yarns

- Countries in which Coats operates
- Manufacturing sites



## Did you know?

### 1 in 5

One in five garments on the planet is held together using Coats' thread

### 100m

100 million car airbags are made using Coats' thread every year

### 3.5hrs

Every three and a half hours, Coats makes enough thread to go to the moon and back

### 1879

Thomas Edison used Coats' thread in his experiments in 1879 to invent the light bulb

## Coats Group

### 2013 financial performance

#### Revenue

**\$1,704m**

+5%<sup>1</sup>

#### Free cash flow

**\$45m**

#### Pre-exceptional operating profit

**\$133m**

+12%<sup>1</sup>

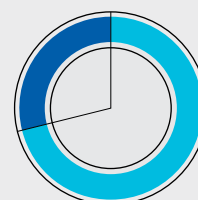
#### Attributable profit<sup>2</sup>

**\$29m**

### Segmental revenue (\$m)

**Industrial Division \$1,212m**

**Crafts Division \$492m**



## Industrial Division

Coats Industrial Division provides thread, yarn, zips, trims, embroidery and services to industrial customers in apparel, footwear and speciality markets

### 2013 revenue

**\$1,212m** +5%<sup>1</sup>

#### Key market segments:

- > Apparel
- > Footwear
- > Speciality: automotive, bedding and furniture, wire and cable, flame retardant performance

- wear, outdoor goods, tyre cord weft, sports goods, feminine hygiene, medical, filtration, tea bags
- > Zips and trims

#### Global customers include:



Abercrombie & Fitch



DECATHLON

P&G



## Crafts Division

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

### 2013 revenue

**\$492m** +4%<sup>1</sup>

#### Consumer activities served:

- > Knitting
- > Crochet
- > Quilting
- > Sewing
- > Embroidery

#### Key brands include:



Coats Duet  
brilliant performance



Dual Duty *Plus*



MILWARD  
Quality for Creativity



**400m**

400 million pairs of shoes are made every year using Coats' thread

**1m**

One million teabags using Coats' thread are brewed every 10 minutes

**1,000s**

Thousands of surgical operations take place every day using Coats' thread

**70m**

Coats produces enough yarn to knit 70 million scarves a year

<sup>1</sup> At constant exchange rates

<sup>2</sup> 2012: Attributable loss of \$146 million

## Chief Executive's Review

I am pleased to report that despite muted market conditions, Coats' results for the year show growth in sales and profit across both Divisions

**Paul Forman** Coats Group Chief Executive

	2013			2012 (restated) <sup>1</sup>		
	Before exceptional items	Exceptional items <sup>2</sup>	Total	Before exceptional items	Exceptional items <sup>2</sup>	Total
	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m
Revenue	1,703.7	–	1,703.7	1,653.4	–	1,653.4
Operating profit/(loss)	132.7	(8.5)	124.2	120.6	(131.7)	(11.1)
Profit/(loss) before taxation	96.6	(8.5)	88.1	76.2	(167.5)	(91.3)
Net profit/(loss) attributable to equity shareholders	37.3	(8.1)	29.2	17.2	(163.6)	(146.4)
Free cash flow			44.8			44.8 <sup>3</sup>

<sup>1</sup> The basis of preparation is set out in note 1 to Coats Financial Information and includes the restatement of 2012 for adoption of IAS 19 (revised)

<sup>2</sup> Exceptional items are set out in note 3 to Coats Financial Information

<sup>3</sup> 2012 figure excludes the \$174.8 million payment of the European Commission fine and associated interest

In the following commentary, all comparisons with 2012 are on a like-for-like constant currency basis and all references to operating profit are to pre-exceptional operating profit

All figures reported in the Coats Group section are in US dollars (US\$) unless otherwise stated

These results illustrate the underlying resilience of our core markets and our strong global market positions. We have continued to generate a good level of free cash flow and growth in returns on capital.

Furthermore we have increasingly robust foundations for future growth through accelerating product innovation, exciting new service offerings and greater capability in key areas like consumer crafts marketing and market leading digital propositions.

### Overview

Coats' trading over the year has been robust despite mixed market conditions. Consolidated sales for the year increased by 5% year-on-year, as a result of growth across both operating Divisions, continuing the positive sales trend experienced in the first half of the year. Sales growth at 3% on a reported currency basis reflects the like-for-like performance, offset by the translation impact of a strengthening US dollar, primarily in the second half, against currencies such as the Brazilian Real and the Indian Rupee.

Coats' operating profit was \$132.7 million, an increase of 12%. Both Divisions continue to offset inflationary cost rises (energy, labour, raw materials and finished goods) with procurement and productivity improvements coupled with pricing initiatives.

## Operating summary

	2013	2012	2012	Reported increase/(decrease)			Like-for-like increase		
	Reported	Reported <sup>1</sup>	Like-for-like <sup>1,2</sup>	Full Year	First Half	Second Half	Full Year	First Half	Second Half
	\$m	\$m	\$m	%	%	%	%	%	%
<b>Revenue</b>									
Industrial	1,211.8	1,174.7	1,151.5	3%	3%	4%	5%	4%	7%
Crafts	491.9	478.7	475.2	3%	2%	3%	4%	4%	3%
<b>Total revenue</b>	<b>1,703.7</b>	<b>1,653.4</b>	<b>1,626.7</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>	<b>5%</b>	<b>4%</b>	<b>6%</b>
<b>Pre-exceptional operating profit<sup>3</sup></b>									
Industrial	110.7	107.0	105.4	3%	8%	(1)%	5%	8%	2%
Crafts	22.0	13.6	13.0	62%	41%	81%	69%	61%	76%
<b>Total</b>	<b>132.7</b>	<b>120.6</b>	<b>118.4</b>	<b>10%</b>	<b>12%</b>	<b>8%</b>	<b>12%</b>	<b>13%</b>	<b>11%</b>
<b>Operating margin<sup>3</sup></b>	<b>7.8%</b>	<b>7.3%</b>	<b>7.3%</b>	<b>50bps</b>	<b>70bps</b>	<b>40bps</b>	<b>50bps</b>	<b>70bps</b>	<b>40bps</b>

1 2012 pre-exceptional operating profit and margin has been restated for the adoption of IAS 19 (revised)

2 2012 like-for-like restates 2012 figures at 2013 exchange rates

3 Pre-reorganisation and other exceptional items (see note 3 to Coats Financial Information)

### Industrial Division

Industrial Division sales are largely driven by demand for clothing and footwear in developed economies. Demand over the last year has continued to be impacted by the slow economic recovery; nonetheless many of our businesses, especially in Asia and Europe, displayed good growth.

Sales growth in the Americas was affected by soft Latin American demand and, as previously reported, a major ERP system implementation in the region. Despite these challenges and tougher comparators, second half sales were up 7%, driven by a good performance in Asia and EMEA.

This builds on growth seen in the first half. Operating profit growth of 5% year-on-year was primarily driven by volume improvements, as cost inflation and investments in new business were successfully offset by pricing and productivity.

### Crafts Division

Crafts' second half sales were up 3% as a result of the first half expansion in shelf space with large retail customers and the ongoing strong growth in handknittings, particularly in North America and Europe.

Operating profit for the full year was up 69% on 2012. Profitability for the second half was up 76% year-on-year, mainly driven by the benefits of reorganisation activity.

### Financial Summary

Full year sales of \$1,703.7 million (2012 – \$1,653.4 million reported) and an operating profit of \$132.7 million (2012 – \$120.6 million reported) were achieved in 2013 despite the slow economic recovery.

At like-for-like exchange rates, which gives the best view of underlying performance, full year sales increased by 5%, with the encouraging performance during the first half of 2013 continuing into the second half. Second half operating profit showed an improvement on 2012, with an increase of 11% while operating margins rose from 7.6% to 8.0%. Productivity, procurement and reorganisation activity drove the improved profitability. Post exceptional items, the operating profit for the year was \$124.2 million (2012 – \$11.1 million reported loss).

Net profit attributable to shareholders was \$29.2 million (2012 – \$146.4 million reported loss). Excluding exceptional items and their associated tax effect, Coats generated attributable profit of \$37.3 million (2012 – \$17.2 million reported).

Continued strong cash generation was reflected in the adjusted free cash flow<sup>i</sup> of \$54.1 million, although this was lower than 2012 (\$64.9 million) due to the timing of tax payments. Reflecting the strong cash generation, year end net debt fell to \$329.2 million (2012 – \$367.6 million).

# No.1

Coats is the world's largest manufacturer of sewing thread with over 20% market share

## Chief Executive's Review continued

Return on capital employed<sup>ii</sup> increased to 22% (2012 – 18%), primarily driven by improved operating profit.

Investment continued to be made to support the growth of the business and to improve its operational performance. Investment in new plant and systems amounted to \$37.8 million (2012 – \$38.8 million).

### Board Changes

During 2013 we announced two important Non-Executive appointments to the Coats Board. Mike Clasper joined as Chairman on 1 September 2013 and Ruth Anderson joined on 2 January 2014.

### Prospects

Many of our markets closely reflect trends in GDP and consumer spend in their underlying demand pattern. Therefore we expect a broadly positive picture in Asia, moderate growth in demand in North America and Europe, and a relatively flat situation in Latin America, especially Brazil. It is expected that raw material costs will trend marginally upwards, and payroll and other inflationary pressures will continue to feature in many of the countries in which Coats operates.

Year-on-year improvement in Industrial Division sales is expected during 2014,

with contributions from both volume and price. Inflationary cost rises in the business will continue to be offset by procurement and productivity improvements, while pricing initiatives will remain important in achieving profitable sales growth.

In the Crafts Division, while 2013 saw 4% like-for-like sales growth, it is expected that a reduction in fashion handknitting yarn sales will contribute to a sales decline in both EMEA and North America, limiting year-on-year growth.

### Conclusion

Coats' underlying results for the year show sound growth across both Divisions illustrating the resilience and strength of our core footwear, apparel, Speciality thread and Crafts businesses. A good cash flow has again been generated and there are sound foundations for future sales and profit growth through ongoing product innovation, market leading use of digital channels together with procurement, productivity and pricing initiatives.

### Paul Forman

Group Chief Executive, Coats plc  
25 February 2014

i See Coats Financial Review on page 26 for calculation of adjusted free cash flow

ii Return on capital employed defined as pre-exceptional operating profit divided by capital employed at period end

# 100+

Our products are sold in over 100 countries

# 20,000+

Coats has over 20,000 employees in more than 70 countries



## Our vision

- > To be the world leader in value added engineered yarns and threads for industrial and consumer use
- > To develop and supply highly complementary products and services where they add significant value to customers
- > We will achieve success through customer-focused innovation and winning propositions driven by motivated people and global teamwork

## Our goals

### Profitable sales growth

Increasing market share through strong customer relationships and product and service innovation

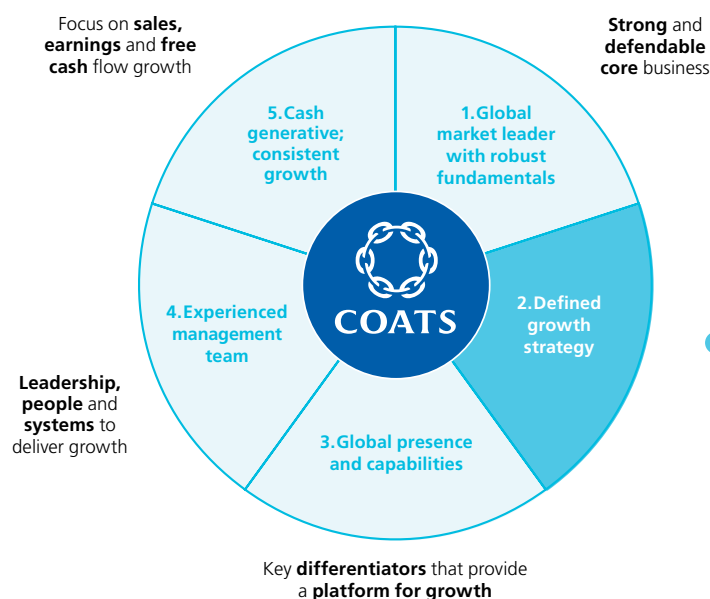
### Increased productivity

Continually focusing on how we best utilise our assets and expenditure

### Positive teamwork

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

## Five elements to our value



## A defined growth strategy



## Our competitive advantages

### Global market leader

+20% market share in footwear and apparel

### Expert, highly engaged people

80% Employee Engagement score in 2013

### Deep, long standing relationships

Global and local customers

### Geographic and sector diversification and scale

100+ countries where our products are sold

### A global, world class, asset base

Over 70 manufacturing facilities worldwide

### Customer focused industry leading product innovation

Pipeline of new products

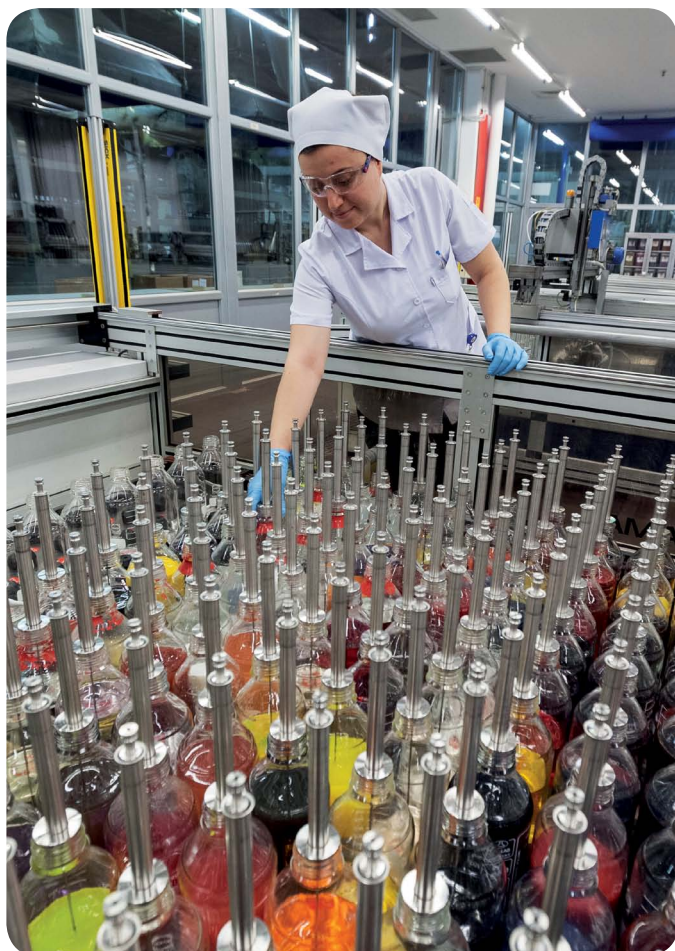
Ideas that link the world



# Ideas that link the world



At Coats, we have strong, enduring connections with customers around the world, based on 250 years of product quality and exceptional service. As recognised market experts, our innovative approach drives product and technical solutions which help our customers achieve their goals



# 100+

Our products are sold in over 100 countries and we work with many of the world's best known apparel and footwear brands



# Global

**Quality, service, delivery, reliability, global positioning of the Coats Group around the world – Coats ticks all the boxes when it comes to being a key strategic partner**

**Phil Courtenay**  
Head of apparel sourcing, adidas

## We operate on a truly global basis

We have long standing relationships with the world's leading brands, retailers and manufacturers in apparel and footwear, speciality customers, craft retailers and consumers

Our size and scale, together with our ability to respond quickly anywhere in the world, means we are uniquely placed to meet their needs



## Coats Colour Stitch

Our proprietary digital colour management system is linked to our 40+ dye-houses around the world – this means that what is standard in one dye-house is standard across our global network



# Expert

**Our people are experts in their field and possess unrivalled industry knowledge and expertise**

This results in a deep understanding of the needs of customers, brand partners and consumers. It allows us to deliver products that enhance productivity and widen product offerings



**We get great products from Coats – we know they're consistent and good quality. And we've got a great relationship in terms of service. That, for our business, is really important**

**Mark Yates**  
Head of Quality and Innovation, Menswear, M&S

## **Delivering operational excellence**

Coats Global Services provides the sewn product industries with expert insights, technical guidance and practical solutions to meet the competitive business challenges in manufacturing, sourcing and colour management



## **Connecting with consumers**

In Crafts we continue to pursue new opportunities to engage and connect with consumers through digital channels such as our global portal **[www.makeitcoats.com](http://www.makeitcoats.com)** and social apps like the Schachenmayr **My Mountain hat designer** that allows consumers to design their own hats

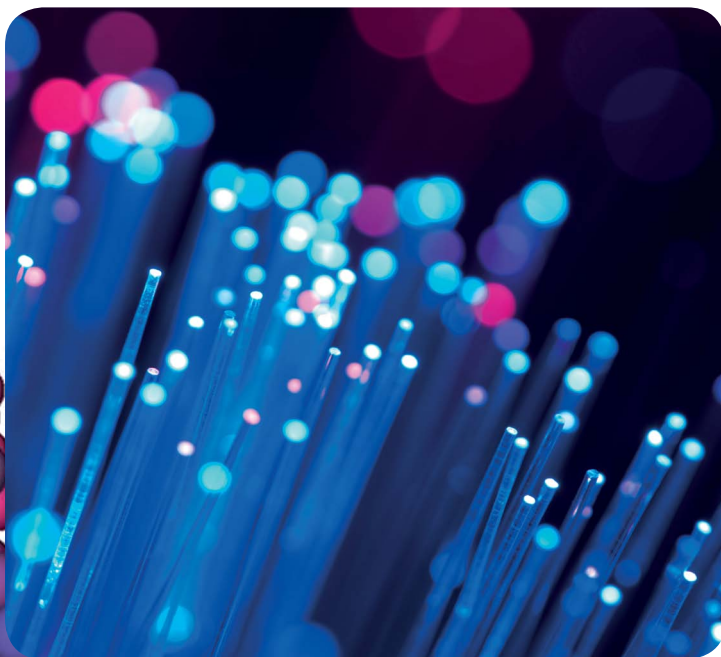
## Technology partnerships

We collaborate with world leading organisations in fields such as nanotechnology, allowing us to develop high performance threads and yarns



## Coats Colour Express

Our revolutionary sampling service for industrial sewing thread won two international awards in 2013 – the “Texprocess Innovation Award” and the “Game Changer through Innovation” Award at the Sri Lanka Fashion and Apparel Awards



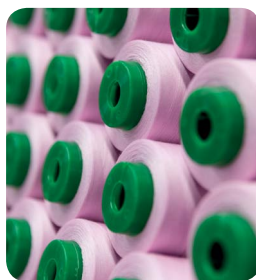
## Towards biodegradable clothing and footwear

We are working in partnership with BluePel on a range of thread and zips that have been enhanced with a unique organic additive that promotes the landfill biodegradation of unrecycled synthetic apparel and textiles



**Coats understands that innovative new products and services are what we look for**

**Udena Wickremesooriya**  
Director, Intimate Apparel and Essentials  
Brandix



# Pioneering

**Our pioneering history and innovative culture ensure we continue leading the way around the world**

Providing complementary and value added products and services to the footwear and apparel industries; extending the crafts offer into new markets and online; and applying innovative techniques to develop products in new areas such as tracer threads, aramids and fibre optics



## Developing the talent in our people

Our strength and market leadership is based on the quality and commitment of our people. Employee engagement, maintaining high standards in health and safety and understanding how people feel about working at Coats are so important to us



# 80%

Our employee engagement score for 2013

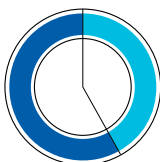


**Our diverse culture and rich heritage has created a distinct and collaborative way of working**

### Gender diversity at Coats

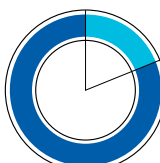
#### Employees

Women	42%
Men	58%



#### Senior management<sup>1</sup>

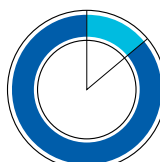
Women	20%
Men	80%



<sup>1</sup> Business operation leaders/managers or senior support staff

#### Directors<sup>1</sup>

Women	14%
Men	86%



<sup>1</sup> Directors of Coats Group companies

### Human Rights and Employment standards

While Coats does not have a specific human rights policy at present, our worldwide Employment Standards (available on our Group website) set out the principles which are observed across our global operations. These standards state our approach to human rights and recognise the requirements of the UN Declaration of Human Rights and Convention on Rights of the Child, the ILO Conventions, and the OECD Guidelines for Multinational Enterprises.

Through competitive packages we recruit and retain high calibre individuals. We invest in our people by providing equal opportunities for learning, through general training and job-skills programmes and, where appropriate, tailored career planning and leadership development.

### A diverse workforce

We have over 70 nationalities amongst our employees and 25 are represented in our global leadership team. Over 40% of our global workforce are women and through our talent and skills development and our global succession plans, our ambition is to increase the number of women at more senior levels in the business. In January 2014 we appointed Ruth Anderson as an independent Non-Executive Director to the Coats plc Board.

### Health and safety

Keeping our employees safe is of paramount importance and in 2013 our global accident rate was 0.37 reportable incidents per 100 Full Time Employees (compared to 0.44 in 2012, and 0.60 in 2011). This is below the latest OSHA\* average of 3.1 for US textile mills and the UK average of 0.46 for the manufacture of textiles, as reported for 2012/13 by the UK HSE\*\*. However, there is always more we can do and we aspire to reduce our accident levels still further in the coming years.

### Employee engagement

We benchmark our workplace culture through our annual employee engagement survey to find out how people feel about working at Coats, and to put in place programmes and actions to address any areas that are identified by our employees as needing attention. 95% of our people participated both in 2012 and 2013 and we are pleased to have scored 80% in employee engagement for 2013 (three percentage points higher than last year, placing Coats in the upper quartile of a leading specialist survey company's global database).

\*US Occupational Safety and Health Administration.  
\*\*UK Health and Safety Executive.

Our Corporate Responsibility (CR) programme is integrated with our business strategy and helps us build and maintain both our reputation and our relationships with key stakeholders



## Our environment

We constantly review our manufacturing processes to remain as efficient as possible, to minimise not only the cost to our business but also minimise the impact we have on the world around us. Since 2000, we have focused on reducing our energy consumption and have seen a dramatic reduction in our carbon footprint. In 2013, Greenhouse gas emissions (GHG) were 5.3 kg CO<sub>2</sub>e per kg dyed product (compared to 5.6 in 2012 and 5.7 in 2011) and we have seen a 4% reduction in our overall footprint.

For more information on our approach to CR, and detailed reporting on our materiality review and our seven strategic themes please see our website.

[www.coats.com/corporateresponsibility](http://www.coats.com/corporateresponsibility)

## CR at Coats

Our business reputation, together with the trust and confidence of our employees and the people with whom we do business, are amongst our most valuable assets. The values and standards that we subscribe to as a company provide the core of our CR programme. These are embodied in the five Coats Principles describing the way we work: *Openness and Honesty, Energy for Change, Freedom to Operate, Customer-Led Innovation and Keeping our Promises*

## Integrated with our business strategy

During 2013 we revisited our CR materiality assessment to confirm that we are on the right track, and reviewed progress against our CR objectives. The materiality assessment, which was initially carried out in 2011, considers how our seven CR themes, and more specifically the key areas identified under each theme, are aligned with the interests of our stakeholders

and how well they support the goals that underpin our business strategy: profitable sales growth, increased productivity and positive teamwork.

In our 2013 review we considered the full spectrum of CR, covering all our seven themes and beyond. The process has reconfirmed that in 2011 we identified the appropriate CR topics for our business and that our annual objectives and action plans are working well in managing performance across each of these areas.

## Seven strategic themes

The key areas or themes we have identified are illustrated in the graphic above. We believe that all the themes are equally important in different ways, e.g. managing our environmental impact and increasing our engagement with communities. More information on the progress we are making is available on our website [www.coats.com](http://www.coats.com).



# Industrial

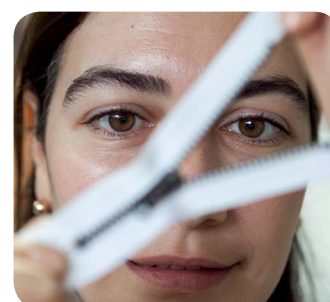
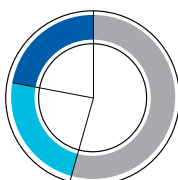
Every year our industrial products go into 10 billion garments, 400 million pairs of shoes and a diverse range of products that are part of the fabric of everyday life: from seat belts and handbags to baseballs and tents

## \$1,212m

Sales in 2013

### Geographic revenue

Asia and Australasia	\$659m
Americas	\$285m
EMEA	\$268m



	2013			2012		Like-for-like increase/(decrease)		
	Reported \$m	Reported <sup>1</sup> \$m	Reported increase/(decrease) %	Like-for-like <sup>1,2</sup> \$m		Full Year %	First Half %	Second Half %
<b>Revenue</b>								
Asia and Australasia	659.0	624.8	5%	609.5		8%	8%	8%
Americas	284.5	295.8	(4)%	288.0		(1)%	(5)%	3%
EMEA	268.3	254.1	6%	254.0		6%	4%	8%
<b>Total revenue</b>	<b>1,211.8</b>	<b>1,174.7</b>	<b>3%</b>	<b>1,151.5</b>		<b>5%</b>	<b>4%</b>	<b>7%</b>
<b>Pre-exceptional operating profit<sup>3</sup></b>	<b>110.7</b>	<b>107.0</b>	<b>3%</b>	<b>105.4</b>		<b>5%</b>	<b>8%</b>	<b>2%</b>
<b>Operating margin<sup>3</sup></b>	<b>9.1%</b>	<b>9.1%</b>	<b>–bps</b>	<b>9.2%</b>		<b>(10)bps</b>	<b>40bps</b>	<b>(40)bps</b>

<sup>1</sup> 2012 pre-exceptional operating profit and margin has been restated for the adoption of IAS 19 (revised)

<sup>2</sup> 2012 like-for-like restates 2012 figures at 2013 exchange rates

<sup>3</sup> Pre-reorganisation and other exceptional items (see note 3 to Coats Financial Information)

In the following commentary, all comparisons with 2012 are on a like-for-like constant currency basis and all references to operating profit are to pre-exceptional operating profit.

Industrial Division sales rose 5% year-on-year, primarily due to increased growth in apparel, footwear, Speciality and zips in Asia and Australasia and in Speciality and zips in EMEA.

Asia and Australasia sales increased by 8% year-on-year as a result of strong growth across the region, with the key driver being apparel and footwear sales in Vietnam, India and Bangladesh driven by local, US and Western European demand.

The Americas sales decline of 1% reflects performance within Latin America where softer demand in Brazil and supply chain pressures due to a major ERP implementation adversely impacted performance during the first half. North American manufacturing and defence sector weakness, primarily in the first half, also had an impact on Speciality product sales. However performance improved in the second half of 2013, with a 3% increase in sales.

EMEA sales increased by 6% driven by strong growth in both Speciality and zips products.

Industrial Division operating profit increased 5% to \$110.7 million (2012 – \$105.4 million), with volume growth, productivity, procurement and pricing initiatives more than offsetting raw material, payroll and energy inflation. Operating margins of 9.1% (2012 – 9.2%) declined slightly as growth and efficiency improvement activity was offset by investment in key strategic growth areas, in addition to facing tougher comparators in the second half.



## Crafts Division

# Crafts

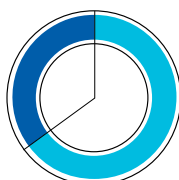
Coats has been providing a range of high quality threads and yarns for handicrafts since the 19th century. Today Coats is the world's leading supplier of recognised handknitting brands, lifestyle fabrics and needlecraft products.

## \$492m

Sales in 2013

### Geographic revenue:

Americas	\$319m
EMEA	\$173m



	2013	Reported <sup>1</sup> \$m	Reported increase %	2012 Like-for- like <sup>1,2</sup> \$m	Like-for-like increase/(decrease)		
	Reported \$m				Full Year %	First Half %	Second Half %
<b>Revenue</b>							
Americas	318.5	311.0	2%	304.2	5%	2%	7%
EMEA	173.4	167.7	3%	171.0	1%	7%	(3)%
<b>Total revenue</b>	<b>491.9</b>	<b>478.7</b>	<b>3%</b>	<b>475.2</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>
<b>Pre-exceptional operating profit<sup>3</sup></b>	<b>22.0</b>	<b>13.6</b>	<b>62%</b>	<b>13.0</b>	<b>69%</b>	<b>61%</b>	<b>76%</b>
<b>Operating margin<sup>3</sup></b>	<b>4.5%</b>	<b>2.8%</b>	<b>170bps</b>	<b>2.7%</b>	<b>180bps</b>	<b>140bps</b>	<b>210bps</b>

<sup>1</sup> 2012 pre-exceptional operating profit and margin has been restated for the adoption of IAS 19 (revised)

<sup>2</sup> 2012 like-for-like restates 2012 figures at 2013 exchange rates

<sup>3</sup> Pre-reorganisation and other exceptional items (see note 3 to Coats Financial Information)

In the following commentary, all comparisons with 2012 are on a like-for-like constant currency basis and all references to operating profit are to pre-exceptional operating profit.

Sales in the Crafts Division rose 4% year-on-year. A significant increase in sales of handknitting products in North America and EMEA continued to drive growth.

Sales growth of 5% year-on-year in the Americas was again primarily due to very strong handknitting sales driven by the fashion yarn segment which includes Red Heart's Sashay product range. Performance in Latin America was adversely impacted by softer demand in Brazil and some supply chain pressures due to the major ERP implementation. Second half growth of 7% (first half 2%) reflected a short term spike in sales of Sashay and operational improvements in Brazil.

The EMEA Crafts business continued to build on the positive performance of the first half of 2013. Strong handknitting sales were partly offset by lower sales in sewing and embroidery. Overall growth in EMEA sales was 1% year-on-year, with the second half decline primarily reflecting a change in operating model in Scandinavia made at the end of the first half. The Scandinavian region has moved from a retail sales to a distribution model, with the intention of improving operating margins albeit at a reduced level of sales.

Operating profit for the Division for the full year was 69% higher than 2012. The improvement in profitability reflected the rationalisation of the business in EMEA. The continued operational efficiency focus drove the increase in Crafts' operating profit margin to 4.5% from 2.7% in the prior year.

## Exceptional items

Net exceptional costs charged to profit before taxation totalled \$8.5 million (2012 – \$167.5 million, of which \$120.4 million related to the European Commission fine).

As previously reported, during 2013 settlement was reached in the US antitrust litigation which had been pending in the US District Court for the Eastern District of Pennsylvania. The lawsuit related to alleged activity in the period from 1991–2007. The settlement was approved by the Court on 24 January 2014. While Coats denies that it breached any US antitrust law and continued to believe it had good defences to the claims alleged, it decided to enter into the settlement to avoid further expense and the distraction of ongoing and protracted litigation in the US. During the second half of 2013, Coats paid a settlement amount of \$9.9 million, which included plaintiffs' legal costs and expenses. The net exceptional charge in the year arising from this settlement was \$2.7 million post US tax deductions of \$4.5 million and existing provisions.

A further \$21.4 million of operating exceptional items was incurred in 2013 (2012 – \$45.3 million). This included reorganisation costs (including impairment) of \$22.7 million (2012 – \$39.9 million) and other exceptional costs of \$5.7 million (2012 – \$5.4 million), offset by the profit on sale of property of \$20.1 million (2012 – \$1.8 million loss) and a UK pension increase exchange offer of \$7.0 million (2012 – \$nil).

The reorganisation primarily related to the restructuring of operations in EMEA. This reorganisation is part of the accelerated programme announced in 2012 to bring forward projects planned for future years, with the aim of not incurring separately identifiable reorganisation expenditure from 2014 onwards. In 2013, the charge also included \$5.0 million of specific projects in Latin America undertaken in response to the trading performance in the region. These were completed in the second half of 2013. Gains on property disposals in the year included sales in Peru (\$18.4 million less tax of \$4.8 million) and in Portugal (\$1.9 million).

The \$0.5 million (2012 – \$8.0 million) US environmental exceptional charge is primarily connected with the remediation of one part of the Lower Passaic River and Coats & Clark's latest estimated share of the remedial investigation, feasibility study and associated legal and consultancy costs (see note 3 to Coats Financial Information for further details).

## Non-operating results

Investment income increased by \$2.3 million to \$4.9 million (2012 – \$2.6 million) following the recovery of a long standing debt. Excluding IAS 19 pensions interest and exceptional items, finance costs reduced by \$4.9 million to \$29.4 million (2012 – \$34.3 million) as a result of lower interest rates on borrowings fixed through swaps and gains on foreign exchange contracts.

The taxation charge for 2013 was \$51.0 million (2012 – \$44.9 million) resulting in a reported tax rate of 58%. Excluding all exceptional items plus any associated tax effect, prior year tax adjustments and the impact of IAS19 finance charges, the underlying effective rate on pre-tax profits of \$108.9 million (2012 – \$90.0 million) was 49% (2012 – 55%). The fall in the underlying effective tax rate primarily reflects reduced losses in EMEA. A global tax review will continue to identify specific actions to manage the effective tax rate.

There was a \$0.1 million loss from discontinued operations in 2013 (2012 – \$2.7 million loss, primarily relating to provisioning for historical UK employer liability claims). Minority interests of \$7.8 million (2012 – \$7.5 million) mainly reflect the post-tax profits made by minority holdings in operations in Bangladesh, China, Hong Kong, Turkey and Vietnam.

The net profit attributable to shareholders was \$29.2 million (2012 – \$146.4 million loss).

Pre-exceptional attributable profit increased 117% to \$37.3 million (2012 – \$17.2 million). This excludes reorganisation costs of \$22.7 million (2012 – \$39.9 million), property profits of \$20.1 million (2012 – \$1.8 million loss), other exceptional items of \$5.9 million (2012 – \$5.4 million) and tax on exceptional items of \$0.4 million (2012 – \$3.9 million). The 2012 figure also excludes the EC fine.

## Investment

Investment continued to be made to support the growth of the business and to further improve its operational performance.

Investment in new plant and systems amounted to \$37.8 million (2012 – \$38.8 million). This capital expenditure was primarily focussed on productivity improvements in the Industrial Division, especially in EMEA. Capital expenditure was 0.8 times depreciation (including computer software amortisation) (2012 – 0.7 times).

## Cash flow

Adjusted free cash flow of \$54.1 million (2012 – \$64.9 million) excludes, all net of tax, reorganisation spend of \$27.7 million (2012 – \$21.1 million), US antitrust litigation of \$8.2 million (2012 – \$nil) and proceeds from property disposals of \$26.6 million (2012 – \$1.0 million). The free cash flow was \$44.8 million (2012 – \$130.0 million) outflow, which included the \$174.8 million payment of the European Commission fine and associated interest.

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was \$181.6 million (2012 – \$173.4 million).

Net working capital as a percentage of sales fell to 14.8% (2012 – 17.1%) resulting in a cash inflow of \$10.2 million. This improvement was driven by a continued focus on all aspects of working capital, with improvements being made primarily in inventory and creditors.

Interest and tax paid increased to \$79.5 million (2012 – \$62.6 million excluding the exceptional interest of \$35.8 million), primarily reflecting the timing of tax payments on account which is now more aligned to the tax charge. Net debt decreased from \$367.6 million at the end of 2012 to \$329.2 million at the end of 2013.

Cash outflow for reorganisation activity of \$28.2 million (2012 – \$21.4 million) was primarily in relation to the restructuring of operations in EMEA, some of which was announced in 2012 as part of the accelerated programme to bring forward projects planned for future years. Coats expects a cash outflow from reorganisation, net of proceeds from related property disposals, over the duration of the programme (across the years 2013 and 2014) of c. \$10-15 million, which excludes the associated benefits.



### Balance sheet

An important metric for the Coats Group is the leverage ratio of net debt to EBITDA. Under the definitions of net debt and EBITDA prescribed in Coats' senior debt facility put in place in October 2011, net debt at 31 December 2013 was 1.8 times EBITDA of the preceding twelve months (2012 – 2.1 times). This fall in leverage will reduce the margin on funds borrowed in 2014 from 200 to 175 basis points.

Equity shareholders' funds increased from \$77.9 million at December 2012 to \$226.2 million at December 2013. This primarily reflects the \$29.2 million attributable profit arising in the period and a \$130.8 million actuarial gain taken directly to reserves in respect of all of the Coats Group's retirement benefit arrangements.

### Pensions and other post-employment benefits

IAS19 (revised) has impacted the accounting for Coats' defined benefit schemes by replacing the interest cost and expected return on plan assets with a net interest amount on net defined benefit assets and liabilities. In addition, pension scheme administrative costs are recognised as administrative expenses. The impact of adopting this new standard is an increase in finance costs of \$37.0 million (2012 – \$28.7 million), an increase in administrative expenses of \$7.0 million (2012 – \$6.4 million) and a reduction in deferred tax of \$1.5 million (2012 – \$1.7 million), compared to what would have been recognised prior to the adoption of this standard. However, the adoption of this standard has had no impact on the Group's net defined benefit obligation nor cash flow.

The net obligation for the Group's retirement and other post-employment defined benefit liabilities improved from \$336.9 million to \$202.7 million at the end of 2013, for the reasons set out below.

### UK pension plan

As at 31 December 2013, the deficit in the Coats UK pension plan, which represents the Group's most significant funded defined benefit arrangement, reduced significantly from \$261.8 million at the 2012 year end to \$129.2 million on an IAS 19 accounting basis. The reduction was primarily as a result of improved asset performance, with the impact from changes in bond yields and inflation largely offsetting each other.

As part of the long-term strategy to manage risks and uncertainties associated with the UK pension plan, during the year, certain pensioners were offered the opportunity to uplift their pension with effect from March 2014 in return for surrendering their rights to future inflationary increases in annual pension payments ("UK pension increase exchange offer"). Acceptance of this offer resulted in an exceptional credit of \$7.0 million, net of costs, reflecting the reduction in liabilities which has arisen. As a result, the ongoing funding deficit of the UK plan has reduced by approximately \$12 million and the buy-out deficit has reduced by approximately \$20 million.

Agreement with the Trustees on the triennial valuation for the UK pension plan was also reached. Annual recovery plan contributions have doubled to \$23 million over 14 years and the first payment was made in November 2013. These contributions will be reviewed at the next triennial valuation date in 2015. Total UK employer contributions in 2014 are estimated to be around \$27 million compared to actual contributions of \$16.4 million in 2013.

### Other pension and post-employment arrangements

The recognised surplus for the US funded defined benefit scheme increased from \$37.3 million to \$47.1 million primarily due to an increase in the expected utilisation for US post-retirement medical claims, partly reflecting a change in legislation in 2013.

The overall net deficit on other plans was \$120.6 million (2012 – \$112.4 million). The increase reflects higher expected claims for the US post-retirement medical plan, partly offset by increases in bond yields in respect of other plans.

### Richard Howes

Chief Financial Officer, Coats plc  
25 February 2014

# Coats Principal Risks and Uncertainties

The key risks faced by the Coats business are:

Risk	Nature of Risk	Action/Mitigation
<b>Strategy and strategic planning risks</b>		
<b>Delivery of Group Strategy</b>	<p>Coats does not deliver on growth projects financially due to lack of resource, poor project management, lack of skills or lack of acceptance in the market.</p> <p>Coats does not deliver the skills and/or culture to achieve the broader growth agenda to facilitate financial goals with a consequence that profitability goals are not achieved or the market multiple is materially below target.</p>	<p>Each project is managed by a dedicated team and sponsored by a member of either the Coats Management Board or Industrial or Crafts Leadership Teams. They are controlled by a Steering Committee and monitored financially. A decision gate process is in place to ensure that projects meet strict commercial criteria.</p> <p>The Coats board receives regular reports on project progress and sets targets for successful commercialisation measured in terms of profitable sales.</p>
<b>Recruiting, maintaining and motivating high-quality staff</b>	<p>Coats does not identify and retain key staff or does not improve skills and knowledge resulting in an inability to execute its growth strategy.</p>	<p>Coats has a Group HR Director and a network of HR professionals including a Head of Reward and a Head of Learning &amp; Development. It has HR policies and processes to manage the risks relating to its employees. These policies cover areas including reward and recognition, health and safety, talent management, skills assessment and development, performance management, succession planning and employee consultation.</p> <p>A group wide employee satisfaction survey for all employees is conducted annually. Strategies are developed and implemented to address concerns raised in the survey.</p> <p>Coats conducts an annual survey of pay and benefits to ensure that its overall terms and conditions of employment remain competitive.</p>
<b>Operational risks</b>		
<b>Pension Risks</b>	<p>Fluctuations in interest rates, investment values and returns, inflation and/or member longevity in Coats defined benefit pension arrangements result in funding burdens on the Group in the future.</p>	<p>Coats' pension position and strategy is regularly reviewed by the Coats board.</p> <p>Coats' funded pension schemes are overseen by the Trustees of the funds; as appropriate the company is represented amongst them. The Trustees take professional actuarial and investment advice as necessary. They have the required skills as a result of experience and training, and where appropriate Coats appoints independent professional trustees to its schemes.</p> <p>As appropriate, Coats actively seeks to de-risk its schemes to reduce the impact of fluctuations.</p>
<b>Treasury Risks</b>	<p>Coats is exposed to uncertainties in financial markets and the banking sector including foreign exchange, interest rate, credit and liquidity risks as well as the risk of bank failure.</p>	<p>Coats has policies covering all aspects of its Treasury operations that provide strict controls on managing risks and the selection of banks. In response to the Euro crisis Coats performed additional risk analysis and established a contingency plan to cover the risk of losses.</p>
	<p>Coats is unable to present itself as an attractive candidate for financing.</p>	<p>Compliance with the terms of Coats' senior bank facility agreements is actively monitored. There is regular contact with core relationship banks and alternative sources of finance have been identified.</p>

Risk	Nature of Risk	Action/Mitigation
<b>IT Risks</b>	Unauthorised access to Coats IT systems and data stores results in the theft of data or the disruption of business processes.	Standard firewall capability is overseen by an external vendor. There are periodic penetration tests resulting in intrusion reports that are acted upon. Coats' networks are actively monitored and multiple layers of user password protection are used at the device level and application level. Communications with portable devices are encrypted.  Coats has a programme to ensure that all internal users have the appropriate access rights and permissions for their roles.
	Coats' IT network and systems performance is inadequate for critical transactions and processes.	Coats has established IT systems in place and Group and Divisional IT teams to manage the IT risks.
<b>Supplier Dependency Risks</b>	One or more of Coats' major external suppliers is unable or unwilling to supply goods causing major disruption to the Coats supply chain that cannot be replaced in the short-term, with the consequence of lost contribution and long-term impact on customer relations.	Coats has a procurement function that is responsible for monitoring and managing relationships with suppliers. This involves monitoring and reviewing external supply chains, multiple sourcing of materials and strategic inventories. The head of this function is a member of the Coats Management Board.  Regular meetings are held with key suppliers. These meetings include detailed discussions of market conditions and supply expectations. Coats also spreads its risk by dealing with more than one supplier on each key material and by continually identifying new sources of supply.  Coats' global insurance programme includes supplier dependency cover.
<b>Internal Supply Chain Risks</b>	Disproportionate reliance on critical internal supply chain nodes or combination of nodes has a significant impact on Coats' profitability in the event of disruption to any of them.	Coats has a manufacturing and supply chain function that is responsible for monitoring and managing these single point exposures. This involves monitoring and reviewing internal supply chains, fire protection systems and creating and testing disaster recovery plans. The head of this function is a member of the Coats Management Board.  Property risk surveys are conducted on a rolling basis of all Coats critical supply chain nodes. The implementation of the risk reduction recommendations is actively monitored and where necessary capital expenditure is prioritised.  Coats' global insurance programme includes property destruction and business interruption cover.
<b>Customer Dependency Risks</b>	Key crafts customers reduce the shelf space for a group of products which Coats supplies or engages in price negotiation materially reducing the contribution earned by the business.	Coats has a commercial capability that is responsible for monitoring and managing relationships with key crafts customers.  Strong commercial relationships are maintained with senior level management at the customers that includes direct access to final decision makers. Coats works to ensure a high degree of customer collaboration, communication and management attention to POS data and weekly replenishment levels. Coats ensures that it provides a high level of service / stock availability for all customer orders.  There has been significant investment in pattern/design support, product promotions and consumer advertising to ensure high consumer in-store footfall and sales growth together with marketing effort aimed at demonstrating craft consumer demographics, in-store buying behaviour and positive correlation to store sales in other categories.

## Coats Principal Risks and Uncertainties continued

Risk	Nature of Risk	Action/Mitigation
<b>Environmental Risks</b>	Non-compliance with Coats' environmental control procedures or local requirements (if these are stricter) leads to a serious pollution event having an adverse impact on Coats' operations and resulting in regulatory action being taken. This results in litigation, resultant damages and damage to reputation.	<p>The Group Management Board defines objectives and targets to achieve the highest practicable standards of environmental performance for the Group. All Environmental issues are reported up to the GPG Audit, Finance and Risk Committee and the Coats Group Management Board through a semi-annual Risk Questionnaire completed by all operating units.</p> <p>All sites must comply with their local legal requirements for effluent quality and volume and must hold the relevant permit to discharge. Coats has "Global Water Effluent Limits", which is a set of 15 parameters with the strictest limits of any local authority according to three downstream categories.</p> <p>Coats' global insurance programme includes cover for 3rd Party property damage and injury or illness resulting from pollution of air, water or soil caused by a sudden or unforeseen incident.</p>
	Coats is held responsible and accountable for clean-up/remediation costs of legacy environmental issues originating before it acquired those sites or after their disposal/closure.	Every step is taken to ensure that sites that are closed and/or sold are cleaned up at that juncture.
<b>Labour Relations Risks</b>	Poor labour relations in Coats' critical manufacturing sites results in disruption to business.	<p>A group wide employee satisfaction survey for all employees is conducted annually. Strategies are developed and implemented to address concerns raised in the survey.</p> <p>In the event of disruption Coats has the ability to move production to other sites if necessary.</p>
<b>Health and Safety (H&amp;S) Risks</b>	Non-compliance with Coats H&S procedures or local requirements (if these are stricter) leads to the injury or death of individuals. As well as being a failure of its duty of care to its employees and contractors, this has an adverse impact on Coats' operations and results in regulatory action being taken. This results in litigation, resultant damages and damage to reputation.	<p>Coats' H&amp;S Policy forms the basis of the Coats Group's H&amp;S management systems and processes. The H&amp;S Policy requires high standards of H&amp;S management at all sites which are implemented through performance monitoring, risk assessment and the management and mitigation of identified risks to help provide continuous improvement in H&amp;S performance.</p> <p>H&amp;S performance is reported to the Coats board by the Coats CEO whenever it meets. The governance structure for H&amp;S places responsibility for H&amp;S performance on the most senior manager of each Coats business unit. Every unit is required to report its H&amp;S KPI's to the Group Risk Manager who reports them direct to the board. The senior managers of the business units are supported by the site managers and senior HR officers who are accountable for ensuring that all activities under their control are carried out in accordance with the Coats H&amp;S Policy and management systems. Each site has an H&amp;S Manager who as a minimum must be trained and qualified according to the requirement of local legislation. All employees are responsible for ensuring that all incidents and near misses both on site and on the way to or from work are reported to the H&amp;S Manager.</p>
<b>Compliance and ethics risks</b>		
<b>Non-compliance with laws and regulation</b>	Non-compliance with any applicable laws/regulations (including those relating to bribery and corruption, human rights and competition/anti-trust) by Coats or one of its major trading partners results in civil or criminal liabilities, individual or corporate fines and reputational damage. It could also result in Coats being excluded from government related contracts.	<p>Coats is committed to the highest standards of corporate and individual behaviour. This commitment is set out in the Ethics Policy and the Code of Business Conduct. Online compliance training in anti-bribery and corruption, competition/anti-trust and ethics is repeated periodically for all senior employees as well as those in high risk positions.</p> <p>Coats has a whistleblower system, which enables employees who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of assets or violations of any group policy, to report these confidentially.</p>

The Board is responsible for the management of the Group's assets and operations

### **R. J. Campbell**

#### **Chairman**

Rob Campbell has over 25 years' experience in investment management and corporate governance. He is a director and audit and risk committee member of Aquasure Pty Ltd. He is a director of Turners & Growers Ltd and Precinct Properties Ltd and Chairman of Summerset Group Ltd and of Tourism Holdings Ltd. Rob is also a board or advisory board member of several private equity and hedge funds globally. He has previously directed the investments of a large family office, and held board appointments in numerous private sector and public sector organisations in New Zealand. *Appointed to the Board 22 September 2010. Appointed Chairman on 5 April 2011.*

### **M. N. Allen**

#### **Non-Executive Director**

Mike Allen is a New Zealand based professional director. His directorships include Coats plc, Watercare Services Ltd (Deputy Chair), Tainui Group Holdings Ltd and Godfrey Hirst NZ Ltd. *Appointed to the Board 22 September 2010.*

### **Sir Ron Brierley\***

#### **Non-Executive Director**

Sir Ron Brierley founded Brierley Investments Ltd in 1961. He was appointed to the Board of Guinness Peat Group plc in March 1990 and continued to apply and develop his established approach within the Company. On 9 December 2010 he retired as Chairman of the Company but remains on the Board as a Non-Executive Director. *Appointed to the Board March 1990.*

### **M. Clasper CBE**

#### **Non-Executive Director**

Mike is the current Chairman of GPG's wholly owned subsidiary, Coats plc. He is also currently Chairman of Which? Ltd and a Non-Executive Director of Serco Group plc. He was formerly Chief Executive of BAA plc and Chairman of HMRC. He was until recently the Senior Independent Director of ITV plc and has held a number of senior executive positions at Procter & Gamble. *Appointed to the Board 20 February 2014.*

### **S. L. Malcolm**

#### **Non-Executive Director**

Scott Malcolm has over 25 years' experience in investment banking and corporate finance both in Australia and the USA. He is currently a partner in a Sydney, Australia based corporate advisory firm, Greenstone Partners Pty Limited. *Appointed to the Board 19 January 2012. Chairman of the Remuneration and Nominations Committee.*

### **B. A. Nixon\***

#### **Non-Executive Director**

Blake Nixon has wide corporate experience in the UK and overseas. He is a founding partner of Worsley Associates LLP, an activist fund manager. On 30 June 2011 Blake ceased to be an executive director and became a Non-Executive Director on 1 July 2011. *Appointed to the Board March 1990. Chairman of the Audit, Finance and Risk Committee.*

### **W. R. Szlezak**

#### **Non-Executive Director**

Waldemar Szlezak has wide experience in the international business scene. He currently serves as a Managing Director in the private equity group of Soros Fund Management LLC ("SFM"). SFM is the principal investment advisor to Quantum Strategic Partners, Ltd., which is a private investment vehicle that currently holds 133,201,970 of the Company's shares. Prior to joining SFM, he worked at Soros Private Equity Investors and prior to that, in the Mergers & Acquisition Investment Banking group at Credit Suisse First Boston in New York. Mr Szlezak currently serves on the board of directors of Coats plc, TowerCo 2013 LLC, Helios Towers Africa Ltd, ExteNet Systems Inc., Quattro Consultoria em Telecomunicacoes Ltda, Hyperoptic Ltd and GSRP LLC. He earned his B.S. in Industrial Engineering & Operations Research from Columbia University in New York, NY and his B.A. in Mathematics from Knox College in Galesburg, IL. *Appointed to the Board 6 March 2013.*

Note: All Directors are members of the Audit, Finance and Risk Committee and of the Remuneration and Nominations Committee.

\* Sir Ron Brierley and Blake Nixon were originally appointed to the Board of Guinness Peat Group plc in 1990. On 13 December 2002 that company undertook a reverse takeover of Brunel Holdings plc, which then adopted the name of Guinness Peat Group plc. These directors were appointed to the Board of the Company on 13 December 2002.

# The Directors present their annual report and audited financial statements for the year ended 31 December 2013

**Chris Healy** Company Secretary

### Post Balance Sheet Events

No significant events requiring disclosure have occurred between the balance sheet date and the date on which these financial statements were approved.

### Results and Dividends

The results of the Group are shown on page 57 and movements in reserves are set out in note 29 to the financial statements. GPG paid no interim dividend in respect of the year ended 31 December 2013 (2012: £Nil). The directors do not propose a final dividend (2012: £Nil).

### Share Capital

Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 28. The Company has one class of Ordinary Shares, which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions known to the Company that may result in restrictions on shares or voting rights in the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation. Shareholder authority for the Company to purchase up to 210,932,103 of its own shares was granted at the 2013 Annual General Meeting.

As a result of the Company's share buyback programme completed on 19 March 2013, and taking into account allotments during the year following the exercise of options by the Company's share option scheme participants, the issued share capital of GPG at 31 December 2013 had reduced to £70,357,606.15 divided

into 1,407,152,123 ordinary shares of 5 pence each. The Company's Ordinary Shares are listed on the London Stock Exchange, the main board equity security market operated by NZX Limited (the "New Zealand Stock Exchange") and on the Australian Securities Exchange. The principal register is held in the UK. Branch registers are maintained in Australia and New Zealand.

### Property, Plant and Equipment

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

### Substantial Interests

On 31 December 2013 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Holder	Interest in Ordinary Shares	% of Voting Rights
Quantum Strategic Partners	133,201,970	9.01
AMP Capital Investors (New Zealand) Ltd.	84,251,778	5.99
MSD Capital	79,606,443	5.66
Southeastern Asset Management Inc	78,112,390	5.55
Invesco Asset Management Ltd	73,120,000	5.19
Accident Compensation Corporation	68,492,658	4.87
Orbis Holdings Ltd	56,422,124	4.01

Since the year end and up to 27 March 2014, the Company has received notification of a change to such interests as follows:

Holder	Interest in Ordinary Shares	Date of Declaration/ Confirmation	% of Voting Rights
Accident Compensation Corporation	55,561,927	16.01.14	3.95



### Financial Instruments

Disclosure of the use of financial instruments by the Group can be found in note 36 to the financial statements.

### Political donations

No contributions were made to political parties during the year (2012: £10,632 made to non-EU political parties).

### Directors and their Responsibilities

The current Directors who served during the year and up to the date of this report are detailed on page 31.

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

A report on Directors' Responsibilities and a statement regarding the disclosure of information to the auditor appear on pages 51 and 52.

Further discussion of the Board's activities, powers and responsibilities, and information on compensation for loss of office, appear within the Corporate Governance section on pages 34 to 36.

### Annual Report and Financial Statements

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

### Greenhouse Gas Emissions

For the year ended 31 December 2013 Coats reported the following cumulative emissions:

Global tonnes of CO <sub>2</sub> e*,**	2013
Direct (Gas, Coal, Oil)	114.2
Indirect (Electricity)	247.6

\* Based on 2013 UK DEFRA GHG reporting guidance and conversion factors. Includes Scope 1 – direct emissions from the combustion of fuel (Gas, Coal and Oil) and Scope 2 – indirect emissions from the purchase of electricity.

\*\* Emissions from global operations include those arising from businesses and exclude fugitive emissions from refrigerants, which represent less than 0.5% of GHG emissions from Coats' business operations.

Details of Coats' emissions per kg of dyed product are provided on page 23 of this Annual Report.

During the year the Company disposed of all its remaining Operating Subsidiaries save Coats. It is not practical for the company to obtain data on Greenhouse Gas Emissions from those companies as a result. Likewise it is not practical to obtain data on the Company's greenhouse gas emissions as the Company now operates two small offices in London and Sydney, both of which produce negligible emissions.

### Auditor

A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2014 Annual General Meeting. A statement in respect of the auditor, in accordance with Section 418 of the Companies Act 2006, has been included in the Directors' Responsibilities Statement on page 51.

The Directors' Report, comprising pages 32 and 33, was approved by order of the Board.

### Chris Healy

Company Secretary

27 March 2014

GPG is a premium listed issuer on the London Stock Exchange and its shares are quoted on the Australian Securities Exchange and, as an Overseas Listed Issuer, on the New Zealand Stock Exchange.

GPG is a publicly traded company registered in England and Wales. As a UK company with a premium listing the Company is required in respect of the year ended 31 December 2013 to comply with or explain deviations from the UK Corporate Governance Code ("the Code") when describing the Company's Corporate Governance arrangements. Likewise, as an ASX listed company the Company is required to explain any deviation from the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Governance Principles"). More information about the Code may be obtained at the UK Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk).

## Board Composition

GPG regards itself as a small company for the purposes of the Code and as such, has at all times during 2013 had at least two independent Non-Executive Directors as prescribed by the Code.

On 6 March 2013, Waldemar Szlezak was appointed as a Non-Executive Director of the Company. Following his appointment, and through to the end of the financial year, the Board consisted of six Non-Executive Directors including the independent Chairman, Rob Campbell, and two independent Directors, Mike Allen and Scott Malcolm.

Waldemar Szlezak was appointed following careful consideration by all members of the Board. He has wide experience in the international business scene. He currently serves as a Managing Director in the private equity group of Soros Fund Management LLC ("SFM"). SFM is the principal investment advisor to Quantum Strategic Partners, Ltd., which is a private investment vehicle that currently holds 133,201,970 of the Company's shares. The Board considered that having a US based director would be extremely helpful in the transition from GPG to Coats, given the enormous demand from the Americas for Coats' products and its facilities in those regions.

Mike Clasper was appointed to the Board on 20 February 2014. He was appointed following careful consideration by all members of the Board. He is Chairman of Coats plc, GPG's remaining operating subsidiary, having been appointed to that post in 2013 following a thorough recruitment process involving external search consultants, the Inzito Partnership, which has no other connections to the Company. When appointing him to the board of GPG the Directors and senior management were familiar with his knowledge and skills. Given his current

appointment as Chairman of Which? Ltd, and his former roles as a non-executive director of ITV plc, Chief Executive of BAA plc and Chairman of HMRC, together with his senior executive position at Procter & Gamble, the Board considered that Mike would bring a wide range of skills and experience to the Board.

As a result of the above, further use of external search consultants or open advertising, as recommended by the Code, in respect of the appointments of Waldemar Szlezak and Mike Clasper was considered unnecessary.

During 2013, following the appointment of Waldemar Szlezak in March 2013, the Board no longer comprised a majority of independent Non-Executive Directors and therefore was not compliant with the ASX Corporate Governance Council Principles and Recommendations. However, following Mike Clasper's appointment the Company is once more compliant.

None of the Non-Executive Directors has been appointed for a specified term but, in accordance with the Company's Articles of Association, each will retire in due course by rotation and be required to offer himself up for re-election at the relevant annual general meeting of the Company.

As a result of the evolving value realisation process which concluded in 2013, together with the more recent need to address tPR's investigation, it has not been possible to quantify the time commitment required from Directors, nor the commitment which will be required going forward. Therefore the letters of appointment of the Non-Executive Directors do not set out their expected time commitment, although all Directors have undertaken to provide sufficient time to engage effectively on behalf of shareholders.

With regard to the appointment and replacement of Directors, the Company is governed by reference to its Articles of Association, the UK Companies Act 2006 and related legislation. Short biographies of each of the Directors appear on page 31 and details of the Directors' remuneration arrangements are set out on pages 47 to 50.

## Compliance

The Board has put in place corporate governance arrangements which it believes are appropriate for the management of the Company's remaining assets, continuing obligations and liabilities and the oversight of the Board's stated strategic objectives. These arrangements cover not only the Company but also its subsidiary companies. The Board also operates an Audit, Finance and Risk Committee and a Remuneration

and Nominations Committee each of which consists of all seven Non-Executive Directors. In the case of the Audit, Finance and Risk Committee, there is an additional independent non-Board member. Other than as referred to within this report, GPG substantially complied with the Code and with its equivalent in Australia throughout 2013. It should be noted that the Code may differ from the New Zealand Stock Exchange's corporate governance rules and the principles of the Corporate Governance Best Practice Code of the New Zealand Stock Exchange. However, GPG is not obliged to comply with these. The Group's compliance or otherwise will continue to be monitored by the Board.

### Board Responsibilities

The Board is responsible for the management of the Group's assets and operations. The Directors are situated in the UK, Australia, New Zealand and the United States of America. They have put in place suitable communication and reporting systems which enable them to monitor, on a timely basis, the Group's activities.

Furthermore, there is a formal schedule of matters specifically reserved for the approval of the Board and its Committees. These matters include the Group's strategy, changes to the Group's capital structure, treasury policies and stock exchange listing matters. Details of the frequency of meetings and attendance at the Company's Board and Committee meetings during 2013 are set out on this page.

The Code provides that a company should identify a senior independent non-executive director. GPG does not and there are currently no plans to have such a designated director. The independent Non-Executive Directors collectively fulfil the role set out in the Code in respect of a senior independent director. In particular, in respect of shareholder communications with the Board, if a shareholder finds that contact through the normal channels of the Chairman has failed to address their particular concerns, then these may be conveyed to any of the independent Non-Executive Directors whose wide experience enables them to deal appropriately with any such enquiries.

The Company has a procedure in place by which Directors can seek independent professional advice at the Company's expense if the need arises. As recommended by the Code, GPG provides certain protections for Directors and officers of companies within the Group against personal financial exposure that they may incur in the course of their

duties. In addition, GPG has provided an indemnity for its Directors to the extent permitted by law in respect of the liabilities incurred as a result of their office.

The interests of the directors, including their connected persons, in the share capital of the Company and its subsidiaries are set out in the Directors' Remuneration Report on pages 47 and 48. No Director, either during or at the end of the year under review, was interested in any material contract (not being a contract of employment) with the Company or any of its subsidiaries nor has become so interested since the year end.

### Board Committees

As mentioned above, the Board has in place to assist in the execution of its duties an Audit, Finance and Risk Committee, and a Remuneration and Nominations Committee. Each of the Committees is authorised, at GPG's expense, to obtain external legal or other professional advice to assist it in carrying out its duties.

### Audit, Finance and Risk Committee

This Committee consists of Blake Nixon, as Chairman of the Committee, together with all other Non-Executive Directors of the Company. David Wadsworth FCA, who is not a director of the Company, has continued throughout the year as an independent member of the Committee. He was appointed to ensure that, in accordance with the Code, the Committee included a member with recent and relevant financial expertise. Mr Wadsworth was formerly a partner of Deloitte LLP. The composition of the Committee was fully compliant with the Code throughout 2013, although the composition of the Committee is not fully compliant with ASX Recommendation 4.2 in that its Chairman is not an Independent Director. A report by the Chairman of the Committee appears on pages 37 to 39.

The written terms of reference of this Committee are available for inspection at GPG's offices in London and Sydney.

### Remuneration and Nominations Committee

This Committee consists of Scott Malcolm as Chairman of the Committee together with all other Non-Executive Directors of the Company. The composition of the Committee was, therefore, fully compliant with the Code during 2013 and remains so.

Remuneration: the Committee monitors, reviews and sets GPG's remuneration policy as set out in the Directors' Remuneration Report on pages 40 to 46.

Nominations: the Committee establishes and agrees with the Board the policy for appointments to the Board.

The written terms of reference of this Committee are available for inspection at GPG's offices in London and Sydney.

### Board Evaluation

The Board conducts a formal annual evaluation of its members. Each director was invited to submit an evaluation of his performance during the year with particular regard to how they have contributed to the effectiveness and timeliness of the asset realisation process, the functional wind-down of GPG operations, preparation of Coats to stand alone and the handling of the tPR investigations, as well as his contributions and commitments to the Board and its Committees. The Chairman of the Board is invited to comment on each evaluation. The Chairman's evaluation is considered by other senior executives. The outcome of these evaluations allows the Board to conclude that it is satisfied with the effectiveness and appropriateness of the composition of the Board and its Committees. No formal performance evaluation process for senior executives took place in 2013.

### Attendance at Board and Committee Meetings in 2013

In accordance with the Code requirement that attendance by Directors at Board, Audit, Finance and Risk Committee and Remuneration and Nominations Committee meetings be disclosed, the following table provides the number of meetings attended out of the number of meetings taking place during 2013 whilst the director was a member. The Directors of GPG are located in UK, Australia, New Zealand and USA. Their geographical diversity means that it is not always possible to attend all Board or Committee meetings. However, all Directors receive all papers relating to meetings of the Board and its Committees. Therefore it is not considered that non-attendance by a member will give rise to any governance issues.

Director	Board	Audit, Finance and Risk Committee	Remuneration and Nominations Committee
MN Allen	15/15	3/6	2/2
Sir Ron Brierley	11/15	1/6	2/2
RJ Campbell	15/15	6/6	2/2
SL Malcolm	15/15	4/6	2/2
BA Nixon	12/15	6/6	2/2
WR Szlezak	8/12	1/3	1/1

### Relations with Shareholders

The Board considers transparency and openness to be a key feature of its stated strategy and endeavours to ensure both that the market and shareholders are made aware as soon as possible of any matters which may be of interest and that regular updates are released to the market. The Board does not have, and does not consider it necessary to have, formal policies on continuing disclosure compliance and communications with shareholders for the purposes of the ASX Governance Principles.

Presentations were made in February 2013 and September 2013 to analysts and shareholders covering the Company's Preliminary Results for 2012 and its half year results for 2013. A presentation was also made on the UK Pensions Regulator process, in May 2013.

In addition, the Board considers the Annual General Meeting to be a useful forum to develop an understanding of the views of its shareholders. At its 2013 Annual General Meeting the Chairman provided an additional report to shareholders.

Copies of all these presentations and reports and the results of proxy voting at the 2013 Annual General Meeting were released to the markets and can be found on the Company's website.

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement together with a Simplified Balance Sheet for the Group. In addition, note 36 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors believe that the Company is well placed to manage its business risks successfully.

At the year end the Parent Group had cash totalling £383 million (2012: £243 million). The Parent Group also has various other actual and contingent liabilities. The Board expects to be able to meet these obligations from existing resources. Further information on the net cash position of the Group is provided in the table at the foot of the Consolidated Statement of Cash Flows.

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

By order of the Board

### Chris Healy

Company Secretary  
Guinness Peat Group plc  
Incorporated and Registered in England  
No. 103548

27 March 2014

## I am pleased to present the Directors' Audit Report for the year ended 31 December 2013

**Blake Nixon** Chairman, Audit, Finance and Risk Committee

### Dear Shareholder,

On behalf of the Audit, Finance and Risk Committee (the "**Committee**"), I am pleased to present the Directors' Audit Report for the year ended 31 December 2013.

### Blake Nixon

Chairman,  
Audit, Finance and Risk Committee

### 1. Introduction

Since December 2012, there has no longer been a separate Coats plc audit committee, as the Committee has taken direct responsibility for all Coats audit, finance and risk matters. The Committee is responsible on behalf of the Board for monitoring, amongst other things:

- the financial reporting process, the integrity of the financial statements of the Group, and any other formal announcements relating to its financial performances and reviewing significant financial reporting judgements contained in them;
- the effectiveness of the internal financial controls and the controls and risk management systems of the Group;
- the terms of engagement of the external auditor, its remuneration, its independence and objectivity and the effectiveness of the external audit process;
- developing and implementing the Company's policy on the supply of non-audit services by the external auditor; and
- compliance with statutory obligations and corporate governance

requirements. In particular, it has direct oversight of the financial reporting process of Coats, and members of the Coats board have a general standing invitation to attend the meetings of the Committee. The Committee meets as required in advance of and during the annual audit process and to consider the final output, as well as to consider the half-yearly review. In addition, the Committee regularly makes itself available to meet with the external auditor without the presence of executive management.

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

### 2. Auditor

The Committee is also responsible for making recommendations on the engagement and independence of the Company's auditor, Deloitte LLP. The audit firm has a policy of partner rotation which complies with regulatory standards and the current audit partner took on the assignment in 2010. Her final audit prior to rotation will be the year ended 31 December 2014. In addition, the auditor has a structure of peer reviews for its engagements which is aimed at ensuring from its perspective independence is maintained. Deloitte LLP was appointed the Company's auditor in 2003 following an evaluation process including the Company's predecessor audit firm. No formal audit tender process has been carried out since that appointment and no policy for future tendering has been established, however, the Committee continues to review the position annually. The Committee considers maintaining an independent

relationship with the Company's auditor to be a critical part of assessing the effectiveness of the audit process. To this end the Committee regularly reviews the level of audit and non-audit fees paid to Deloitte LLP and also has in place a policy for ensuring significant assignments are not awarded to the auditor without first being subject to the scrutiny of the Committee. There are no contractual obligations that restrict the Group's choice of external audit firm. The policy requires the Committee to take action based on the following categories of non-audit services:

- (i) Permitted services are those that fall outside the scope of an audit and these are managed by reference to the fee levels whereby services with fees exceeding certain amounts, either individually or cumulatively, cannot be provided by the auditor without the prior approval of the Audit, Finance and Risk Committee – during 2013, these permitted non-audit services were primarily comprised of tax strategy, compliance and advice and supply chain consulting services;
- (ii) Other advisory services which are deemed not to compromise the independence of the auditor but are reviewed on a case by case basis; and
- (iii) Certain services, such as services remunerated on a success fee or participation in activities normally undertaken by management, are prohibited from being provided by the auditor because of the potential to compromise audit independence.



# Annual Statement by the Chairman of the Audit, Finance and Risk Committee continued

The Board confirms that no such services have been provided. The Committee is satisfied that its policy on the supply of non-audit services by the Company's auditor, Deloitte LLP, ensures that audit objectivity and independence are safeguarded. Following consideration of the performance and independence of the external auditors, the Audit, Finance and Risk Committee has recommended the reappointment of Deloitte LLP for the 2014 financial year.

## 3. Internal audit

The Code obliges audit committees to consider the need for internal audit and to make a recommendation to the Board. The Committee considers Coats' operations to be sufficiently widespread to justify its own internal audit function, and the Coats Head of Group Internal Audit agrees the department's programme of work with, and makes its reports directly to, the Committee. The internal audit reports contain a grading for each location visited and those not reaching an acceptable standard are scheduled for follow up visits as part of the programme for the following year. In addition to its rolling programme of reviews, the Coats Group Internal Audit team carries out special investigations as the need arises. The Committee reviews the position annually and currently it recommends to the Board that, save for Coats' operations, the Group is not sufficiently large or complex to justify a centralised internal audit function.

"Whistleblowing" procedures exist within the Company and within Coats.

## 4. Significant issues considered during the year

The Committee has dealt with the following significant issues during the course of the year:

- (a) Going concern – the Committee in conjunction with the Board of GPG considered the going concern status of the Group. The Committee and the Board are satisfied that the Group remains a going concern.
- (b) Disclosure of pension matters – the Committee reviewed in detail the various aspects of the continuing obligation to the Group's ongoing schemes, including the potential impact of tPR's investigation, and is satisfied that the disclosure relating to these provides an appropriate balance.
- (c) Coats Brazil enterprise resource planning ("ERP") system implementation and other operational issues – the Head of Group Internal Audit for Coats and Coats executive management reported to the Committee on this matter and the Committee will continue to monitor progress in 2014.
- (d) Anti-bribery – the Committee reviewed with management the processes and procedures in place to ensure the UK anti-bribery legislation was complied with. Coats has implemented a thorough training regime to supplement its policies in this area. The Committee has satisfied itself as to the adequacy of the steps taken.
- (e) Employee benefit obligations – the Committee, in conjunction with the Board, reviewed advice received from external professionals addressing the key assumptions being applied for the valuation of employee benefit obligations at the year end.
- (f) Functional and reporting currency – given the changing nature of the Group's activities and geographical spread, the Committee considered both the functional currency of the Company and also the most appropriate currency for Group reporting. With the benefit of management's analysis, the Committee satisfied itself that the Company's functional currency in 2013 remained GBP and that the Annual Report should be prepared in that currency.
- (g) US environmental provisions – a subsidiary of Coats has been notified that it is a "potentially responsible party" under the US Superfund law for investigation and remediation costs at the Lower Passaic River Study Area ("LPRSA") in New Jersey. At the present time there can be no assurance as to the final scope or cost of future remedial action. For the reasons stated in note 30 (Contingent Liabilities) Coats cannot currently predict what its subsidiary's share of such costs will be. The Committee considered management's judgement to provide for certain costs that have been incurred or committed to investigate the LPRSA and to remediate a small mudflat area but not the wider potential liability, and the disclosure of this matter in the Annual Report, and concurs with the treatment adopted.
- (h) Other provisioning – the Committee considered the various judgements made by management in setting other provisions, the main areas being in respect of tax, property and costs associated with tPR's investigation.
- (i) Taxation – Coats operates in numerous jurisdictions around the world and the sheer variety of regulation together with the quantum of cross-border transactions gives rise to inherent risks. The Committee has reviewed management's reports on tax risks and is satisfied with the judgements taken in preparing the financial statements.
- (a) Carrying value of intangible assets – the Group has significant balance sheet values relating to intangible assets with indefinite lives (brands). Following input from executive management, the Committee has considered these carrying values and agreed impairment adjustments where necessary.
- (b) Carrying value of tangible fixed assets – in addition to considering whether or not intangible assets require impairment, the Committee also reviews for evidence of impairment of tangible assets. This entails identifying loss making business activities and interrogating the related business plans. The Committee is satisfied the carrying value of tangible fixed assets is recoverable.
- (c) Carrying value of investments – the Committee regularly reviewed the carrying value of investments held for sale, based on papers provided by executive management – most recently for the Half-yearly review. No such review was necessary at the year end due to the completion of the investment portfolio realisation programme.
- (d) Accounting for investment disposals – during the year GPG disposed of its investments in Tower, Ridley, CIC Australia, Capral, Prime Ag, Tandou and A V Jennings. The accounting for these various disposals was subject to review by the Committee.



## 6. Internal controls

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

The internal controls of the Group are designed to address material risks which may affect the achievement of the Group's objectives and include business, operational, financial and compliance risks. These controls have been in place throughout the year for GPG and its principal subsidiaries and have continued in force up to the date of Board approval of the Annual Report. The internal controls are designed to identify, evaluate and manage, rather than eliminate, risk of failure to meet business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. During the year the system was reviewed by the Committee and the Board. The system accords in all material respects with the 2005 guidance of the Turnbull Committee issued to companies listed on the London Stock Exchange (the "Turnbull Guidance").

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

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

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

Australian Corporations Act does not apply to the Company.

GPG has not established a formal code of conduct regarding ethical and responsible decision making nor does it have a formal policy on diversity, as the Board is satisfied with the internal controls and compliance principles referred to above. Further information on diversity is contained in the GPG Strategic Report on page 11 under the heading "Diversity". It should, however, be noted that Coats employs people from a diverse range of nationalities and has a stated ambition to increase the number of senior roles held by women.

The principal risks and uncertainties facing the Group are addressed in the Strategic Report and in sections 5 and 6 of this report.

As at 31 December 2013, the Group had one remaining operating subsidiary – Coats, which is wholly owned. Its board has been notified of its responsibilities for identifying key business risks appropriate to its own business sector and establishing appropriate and relevant control and compliance procedures. It is also required to acknowledge it is responsible for the operation of its internal control systems. Notwithstanding this, as noted above, the Committee in fact takes full responsibility for reviewing the internal control environment within Coats and receives regular reports from management and Coats Internal Audit.

Mike Clasper was appointed Chairman of Coats on 1 September 2013, and a director of Guinness Peat Group plc on 20 February 2014. He, together with Mike Allen and Waldemar Szlezak are members of the Coats board. Through them internal controls are carefully monitored. The Committee has direct oversight of Coats' internal controls.

The Committee has reviewed and accepted a report on the internal controls operated in 2013 by Coats.

The Audit, Finance and Risk Committee Report was approved by the Board of Directors on 27 March 2014 and signed on its behalf by:

**Blake Nixon**

Chairman,  
Audit, Finance and Risk Committee

# Directors' Remuneration Report for the year ended 31 December 2013

## I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2013

**Scott Malcolm** Chairman, Remuneration and Nominations Committee

### Annual Statement by the Chairman of the Remuneration and Nominations Committee

#### Dear Shareholder,

On behalf of the Remuneration and Nominations Committee (the "**Committee**") I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2013.

This report sets out details of the remuneration policy for Directors and discloses the amounts paid relating to the year ended 31 December 2013. GPG does not currently have any Executive Directors, however, in accordance with revised reporting regulations in the UK this report describes the Remuneration Policy that would apply to any future Executive Directors who may be appointed to the Board over the life of the Remuneration Policy.

The report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the current UKLA Listing Rules.

The Directors' Remuneration Policy (set out on pages 40 to 46) will be put to shareholders for approval in a binding vote at the AGM. The Effective Date of the policy will be 22 May 2014 which is the date shareholder approval is being sought for the policy for the first time under the new reporting rules.

This Annual Statement and the Annual Report on Remuneration (set out on pages 47 to 50) will be subject to an advisory vote at the AGM.

The main changes relating to remuneration over the past year have been (a) the introduction, from 1 October 2013, of a reduced standard basic fee for Non-Executive Directors of £60,000 per annum and a reduced fee for the Chairman of £120,000 per annum and (b) Sir Ron Brierley (from 1 October 2013) not taking any fees for their services. Waldemar Szlezak has never received a fee.

Conclusion of the capital management realisation initiatives and the transition of Coats to a standalone entity has been delayed while there remains uncertainty around the UK Pensions Regulator's on-going investigations. At an appropriate time GPG is proposing to transition from a pure investment portfolio holding company with a Board of only Non-Executive Directors to a more traditional FTSE organisation with a Board consisting of a number of Executive Directors appointed alongside a majority of Non-Executive Directors. As a result, our Directors' Remuneration Report this year reflects the unique circumstances of the Company. The Remuneration Policy that would be applied to any future Executive Director appointments is intended to be consistent with the best practice guidelines for a UK quoted company of a similar size and complexity whilst recognising there may be legacy terms should any executives employed by the Group be appointed.

At the forthcoming AGM in May 2014 shareholders will be asked to approve the adoption of certain executive and employee share plans in which future Executive Directors would be eligible to participate.

#### Scott Malcolm

Chairman, Remuneration and Nominations Committee  
27 March 2014

### Directors' Remuneration Policy

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

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

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

Although the Company does not currently have any Executive Directors, the Remuneration Policy set out below takes into account the possibility that over the life of the policy Executive Directors may be appointed to the Board.

#### Non-Executive Directors

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

## Non-Executive Directors' Remuneration Policy Table

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

### Legacy matters

Two of the Non-Executive Directors hold share options granted under the Guinness Peat Group plc 2002 Executive Share Option Scheme ("the Scheme"). Details of share options granted to existing Non-Executive Directors are set out on page 48 of the Annual Report on Remuneration. These remain eligible to vest based on their original award terms. The share options were not granted subject to performance targets, although as the options were granted with an exercise price equal to the share price at the date of grant, the options are subject to an inherent share price target. All such options are fully vested and are capable of exercise in full.

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

### Approach to recruitment remuneration

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

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

### Terms of appointment

#### Fees

Under their respective Non-Executive Director appointment letters, all of the

Non-Executive Directors other than Waldemar Szlezak are entitled to receive an annual fee. Waldemar Szlezak's appointment letter reflects his agreement not to receive any fee.

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

Mike Clasper CBE has elected not to receive any fee in respect of his GPG duties (but receives a fee for being the Chairman of Coats plc).

#### Term and termination provisions

None of the appointment letters contain a set term of office.

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

Sir Ron Brierley's appointment is terminable by the Company on giving 18 months' written notice or by Sir Ron Brierley giving 12 months' written notice. In case of early termination by the Company other than for cause Sir Ron Brierley is entitled to receive a payment in respect of any annual bonus for the period to the date on which the notice period would expire, based either (at Sir Ron Brierley's election) on the average bonus paid in the preceding two financial years or on the bonus actually declared (or which would have been declared but for the cessation of office) for the relevant financial years. If Sir Ron Brierley is removed as a director within two years of a change in control of the Company, other than for

cause, he is entitled to compensation equal to two times the average bonus received in the preceding two financial years. As referred to above, there is no current or future intention to award Sir Ron Brierley any bonus under the staff bonus scheme.

All Non-Executive Director letters of appointment are available for inspection at 78 Pall Mall, London SW1Y 5ES during normal hours of business, and will also be available at the Company's AGM on 22 May 2014 until the close of the meeting.

### Policy on payment for loss of office

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

### Share options

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

### Executive Directors

As noted above there are currently no Executive Directors. However, the policy that would apply following the appointment of any Executive Directors is shown below.

### Recruitment

In order to appoint an Executive Director, including a promotion to the Board of an executive from within the Group, the Committee will offer the recruit a remuneration package that it believes is appropriate, taking into account the skills and experience of the individual and the need to attract, retain and motivate individuals of the appropriate calibre.

# Directors' Remuneration Report for the year ended 31 December 2013 continued

In determining the remuneration package that may be offered to a new Executive Director, the Committee may also take into account external and internal comparisons and relevant market factors, as well as any other factors which the Board determines to be relevant.

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

For external appointments, the Committee may determine that there may be exceptional circumstances where it would be appropriate, in order to secure the right candidate, to compensate for lost awards incurred by an individual as a result of leaving their former employer. In the case of any long term incentive awards, save where such awards are close to vesting, any such award on appointment would normally be granted as a share based award, subject to such vesting and/or performance conditions as the Committee

determined to be appropriate, either under a one-off arrangement or under the terms of the proposed new Long Term Incentive Plan (as described below). In determining the terms of any such awards, the Committee would take account of the vesting schedule and conditions attached to the forfeited awards, but also other factors that it determined to be relevant, including the need to suitably incentivise and retain the individual during the initial years of their appointment.

## Executive Directors' Remuneration Policy Table Fixed remuneration

Salary	
Purpose and link to strategy	Operation and opportunity
<b>To attract and retain the key talent that the Company needs to achieve its objectives.</b>	<p>Salaries for new Executive Directors will be set by the Board taking into account such factors as it determines to be necessary, as discussed above.</p> <p>Following recruitment, salaries will be reviewed annually with effect from 1 July. Salary reviews take account of factors including the market competitive level of pay in other companies, average salary increases applied elsewhere across the Group, the performance of the Company and the relative skills, performance and talent of the individual and any increase in the scope and/or responsibility of the individual's role.</p> <p>The Committee's approach will consider the median level of salary of similar positions in the FTSE250 (excluding financial services) for UK based roles to reflect the global scope and dimensions of the Group's operations and the sector in which it operates. External benchmark data is considered only as a reference point and the median figure will not be regarded as a target level of remuneration.</p>
Pension	
Purpose and link to strategy	Operation and opportunity
<b>To provide a market competitive level of retirement provision.</b>	<p>In the case of an external appointment, the Executive Director will either be entitled to participate in a defined contribution scheme, on a non-contributory basis, with an employer contribution of up to 20% of salary, or will be provided with a cash alternative in lieu of any pension benefits of up to 20% of salary.</p> <p>In the case of promotion of an executive of the Group to the role of Executive Director, the individual will be entitled to continue to participate in any pension arrangements (including any cash alternative arrangements) in which they participate at the time of promotion or to participate in a new arrangement on the same terms as may be offered to an external appointment (as described above).</p>
Benefits	
Purpose and link to strategy	Operation and opportunity
<b>To provide a market competitive level of benefits.</b>	<p>Benefit provision to Executive Directors will be determined by the Committee taking into account such factors as it determines to be necessary, with the aim of creating a competitive overall package.</p> <p>Benefits may include the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for-car-allowance.</p> <p>In addition, the Company may provide assistance in connection with the relocation of an Executive Director and, in the event of an international transfer, may provide tax equalisation arrangements.</p> <p>Executive Directors may also participate in any all-employee incentive plan operated by the Company from time to time, up to the same limit for participation as applies for other employees.</p>



## Variable remuneration

### Annual bonus

#### Cash bonus and deferral into shares under the proposed new Deferred Bonus Plan

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

# Directors' Remuneration Report for the year ended 31 December 2013 continued

## Long Term Incentive Plan

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

### Legacy matters in respect of future Executive Directors

In the event that an executive of the Group is promoted to the Board, the Company retains power to honour any existing remuneration commitments. In particular, any long-term awards, both cash and share awards, will continue to be capable of vesting on their existing terms. This would include awards previously granted under legacy Group incentive plans. This would also include any awards granted under the

proposed new Long Term Incentive Plan or proposed new Deferred Bonus Plan prior to the individual being appointed as a director (although it would be intended that any such awards would in any event comply with the Policy as set out above).

### Shareholding target

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

### Service contracts of future Executive Directors

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

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

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

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

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

#### **Policy on payment for loss of office of future Executive Directors**

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

#### *Notice periods, salary and contractual rights*

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

#### *Incentive plans*

	<b>"Good leavers"</b>	<b>Other leavers</b>
<b>Annual bonus</b>	<p>The Company does not consider it appropriate to set defined "good leaver" and "bad leaver" conditions in respect of the annual bonus arrangements. Instead, where an Executive Director has ceased to hold office or employment with the Group, or is under notice, other than due to personal misconduct, the Committee will determine whether or not the individual will be eligible to receive any annual bonus.</p> <p>If the Committee determines that a departing Executive Director is eligible to receive a bonus, the amount of the bonus will be assessed by reference to the performance targets set for that financial year.</p> <p>The deferral requirement in respect of 25% of the amount of any bonus awarded will apply if the Committee so determines.</p> <p>The amount of any bonus will be pro-rated for time, provided that the Committee has discretion to waive time pro-rating.</p>	<p>Where the reason for cessation of office or employment is personal misconduct no bonus will be payable.</p> <p>In other cases, unless the Committee determines that the departing Executive Director is eligible to receive a bonus, no bonus will be payable.</p>

# Directors' Remuneration Report for the year ended 31 December 2013 continued

## Incentive plans continued

	"Good leavers"	Other leavers
<b>Long Term Incentive Plan</b>	<p>A departing Executive Director will be a "good leaver" on ceasing employment due to retirement, injury, disability, ill-health, death, redundancy or the sale of a business or subsidiary out of the Group.</p> <p>Awards held by "good leavers" will normally vest on the normal vesting date (i.e. the third anniversary of grant) to the extent that the performance conditions are met and be pro-rated for time.</p> <p>The Committee will have discretion to accelerate vesting to the date of cessation. The Committee also will have discretion to waive the time pro-rating requirement.</p>	<p>Unvested awards will lapse in full where the cessation of office or employment is on grounds of personal misconduct.</p> <p>In other cases, the Committee will have discretion to determine that unvested awards will vest (in which case the terms applicable to "good leavers" will apply). Unless this discretion is exercised, unvested awards lapse in full.</p>
<b>Deferred Bonus Plan</b>	<p>Unvested deferred shares (which represent deferrals of earned bonus) will vest in full on the normal vesting date (i.e. the third anniversary of grant), provided that the Committee will have discretion to accelerate vesting to the date of cessation.</p>	<p>Where the reason for cessation of office or employment is personal misconduct unvested deferred shares will lapse in full.</p>

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

### Discretions

In considering the exercise of its discretions under the incentive arrangements, as referred to above, or otherwise in connection with the cessation of office or employment of an Executive Director, the Committee will take into account all relevant circumstances, having regard to their duties as directors. In doing so, factors that the Committee may take into account shall include, but not be limited to, considering the best interests of the Company, whether the Executive Director has presided over an orderly handover, the contribution of the Executive Director to the success of the Company during their tenure, the need to ensure continuity, the need to compromise any claims that the Executive Director may have, whether the Executive Director received a PILON and whether, had the Executive Director served out their notice, a greater proportion of the outstanding award may have vested.

### Other

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

### Corporate Actions

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

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

### Development of this Policy

#### Statement of consideration of employment conditions elsewhere in the Company

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

#### Statement of consideration of shareholder views

The Committee remains committed to shareholder dialogue and take an active interest in voting outcomes, and have commenced a communication exercise with our major shareholders when setting this Policy.

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



## Annual Report on Remuneration

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

### Single total figure of remuneration for each Non-Executive Director

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

	Fees (£)*		Total (£)*	
	2013	2012	2013	2012
R. J. Campbell	225,833	315,093	225,833	315,093
M. N. Allen	198,801	263,591	198,801	263,591
Sir Ron Brierley	50,468	79,933	50,468	79,933
S. L. Malcolm	102,142	159,850	102,142	159,850
B. A. Nixon	124,089	155,030	124,089	155,030
W. R. Szlezak	–	–	–	–

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

Included within Directors' fees are £8,333 (2012: £65,093) for R J Campbell, £133,333 (2012: £132,500) for M N Allen and £45,833 (2012: £48,750) for B A Nixon in respect of services provided to other Group companies, and £8,750 (2012: £22,083) for B A Nixon in respect of services provided to Group Pension Schemes.

#### Total pension entitlements

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

#### Interests in shares (excluding share options)

Ordinary 5p shares	31 December 2013
R. J. Campbell	525,043
M. N. Allen	200,000
Sir Ron Brierley	21,882,765
S. L. Malcolm	570,000
B. A. Nixon	17,811,406
W. R. Szlezak	–

M. Clasper, CBE, was appointed as a Director on 20 February 2014. On appointment he held 870,000 shares.

#### Scheme interests awarded during the financial year

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

#### Payments to past Directors

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

#### Payments for loss of office

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

#### Statement of Directors' shareholding and share interests

The interests of the Directors who held office during the year, and their connected persons (if any), in the shares, options, and listed securities of GPG and its subsidiaries as at 31 December 2013, are set out below.

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

# Directors' Remuneration Report for the year ended 31 December 2013 continued

## Options under the Group's share option scheme

The outstanding scheme interests are in the form of share options, as set

out below, which are currently capable of exercise and are not subject to performance conditions, although as the options were granted with an exercise

price equal to the share price at the date of grant the options are subject to an inherent share price target.

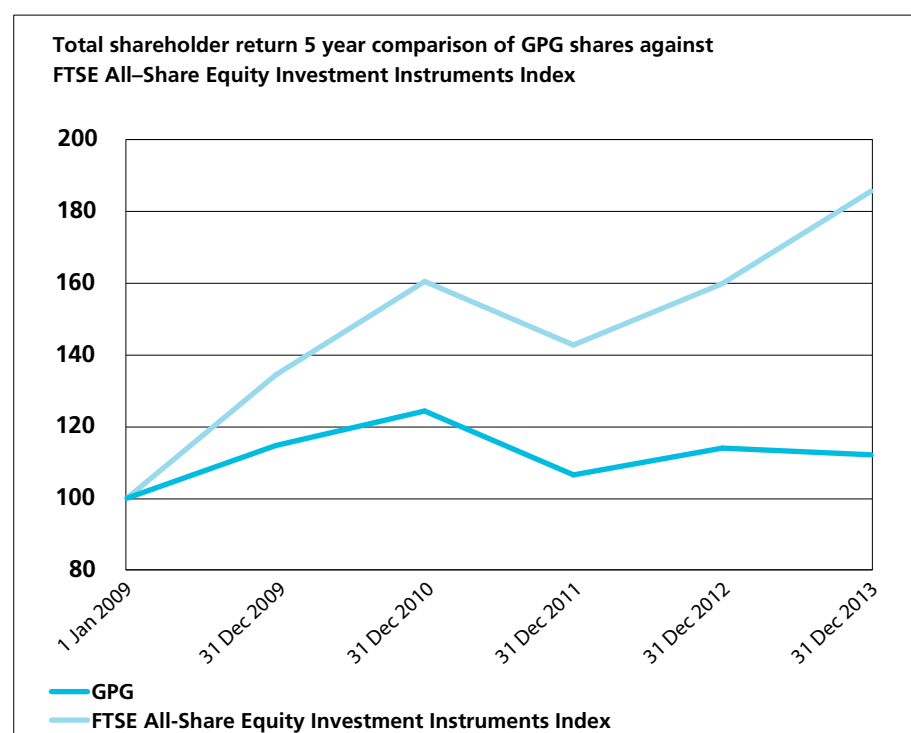
Ordinary 5p shares	31 December 2013 Number	Effective exercise price (pence per share)	Exercise period
Sir Ron Brierley			
Ordinary	767,245	40.0912	23.04.07 to 23.04.14
Ordinary	697,495	48.2294	09.03.08 to 09.03.15
Ordinary	396,302	51.0967	24.10.08 to 24.10.15
Ordinary	237,779	56.6480	15.03.09 to 15.03.16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

No options granted to Directors were exercised or lapsed during the year. No such options have been exercised or have lapsed since the year end.

From the year end to the date of approval of this Annual Report, no further options have been granted.

The middle market price of GPG's shares at 31 December 2013 was 30.00p and the range during the year was 23.50p to 33.50p.

## Performance graph (unaudited)



The graph shows the difference between investing £100 in GPG and the constituents of the FTSE All Share index from 1 January 2009 to 31 December 2013. It is assumed dividends are reinvested over that period. The Board feels the FTSE All Share index provides an appropriate comparator for GPG given the group's market capitalisation and its presence on the London Stock Exchange.

The Company did not have any Executive Director who performed the role as chief executive during the five years ending 31 December 2013 and so no table of historic CEO data has been included.

**Comparison to CEO pay**

The Company did not have any Executive Directors during the year ending 31 December 2013, and so it is not possible to provide a comparison between the changes in Chief Executive Officer remuneration and remuneration of employees during the year.

**Relative importance of spend on pay**

The table below shows the total pay for all of GPG's employees compared to other key financial indicators.

	Year to 31 December 2013	Year to 31 December 2012	% change
Employee costs (£'m)	280	281	(0.4)%
Distributions to shareholders <sup>1</sup> (£'m)	45	25	80.0%
Special dividend	–	–	–
Average number of employees	20,969	22,084	(5.0)%
Revenues from continuing operations (£'m)	1,089	1,043	4.4%
Profit/(loss) before tax from continuing operations (£'m)	14	(93)	N/A

<sup>1</sup> By way of dividends and share buybacks

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

**Statement of implementation of Remuneration Policy for 2014**

Basic fees were reviewed and reduced from 1 October 2013; the previous rates had been in place since May 2012. As a result of that review, the current Chairman's fee

is £120,000 and the current basic fee for each Non-Executive Director is £60,000 (although Sir Ron Brierley, Mike Clasper CBE and Waldemar Szlezak have agreed not to receive any fee).

In the event that Executive Directors are appointed during the year, the Committee would apply the following performance measures and weightings in respect of

the annual bonus arrangements and awards under the proposed new Long Term Incentive Plan (provided that the Committee retains absolute discretion to determine the level of grant, if any, of such awards). These performance measures and weightings are generally in line with the measures and weightings that are intended to be set for other senior employees within the Group.

**Annual bonus:**

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

Underpin: in order for any annual bonus to be payable, the underpin condition based on Attributable Profit must be met.

The underpin condition would require Attributable Profit for the year ending 31 December 2014 to at least equal Attributable Profit for the year ending 31 December 2013 (subject to adjustment for fluctuations in exchange rates)

In the event that Executive Directors are appointed during the year, the Committee will set the targets for each of the above performance measures in accordance with the Remuneration Policy Table above.

**Consideration by the Directors of matters relating to directors' remuneration**

The members of the Committee are: S. L. Malcolm (Chairman), R. J. Campbell, M. N. Allen, Sir Ron Brierley, M. Clasper CBE, B. A. Nixon and W. R. Szlezak. The responsibilities of the Committee are set out in the Corporate Governance section of the Annual Report on page 35.

The Committee also received assistance from C. Healy (Legal Director and Company Secretary) who also acts as secretary to the Committee. No Non-Executive Directors are involved in deciding their own remuneration.

The Committee appointed Hay Group during 2013 in connection with advising the Committee on developments in non-executive pay. The total fees paid to Hay Group in respect of service to the Committee during the year were £10,000. Hay Group is a signatory to the Remuneration Consultants' Code of Conduct. The Committee is satisfied that the advice it received is independent and objective.

# Directors' Remuneration Report for the year ended 31 December 2013 continued

## Statement of voting at general meeting

At the Annual General Meeting of GPG on 23 May 2013 the results of the vote regarding Resolution 2 (to approve the Directors' Remuneration Report) were:

Votes For		Votes Against		Votes Total	Votes Withheld
Number	%	Number	%		
415,397,796	53.27	364,389,295	46.73	779,787,091	778,605

As will be noted, a significant proportion of shareholders who voted at the AGM voted against the Directors' Remuneration Report. So far as the Board is aware, the main reason for such a large negative vote was dissatisfaction at the level of remuneration of the Directors. Following the AGM, the Remuneration Committee consulted with Hay Group over Directors' remuneration. Given the restructuring and simplification of the operations of the Company the changes mentioned in my letter on page 40 of this report were then implemented.

The Remuneration Report was approved by the Board of Directors on 27 March 2014 and signed on its behalf by:

**Scott Malcolm**

Chairman, Remuneration and Nominations Committee

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

**Rob Campbell** Chairman

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

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

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

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

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

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

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

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

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

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



# Directors' Responsibilities Statement continued

## Responsibility statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors' Responsibilities Statement, comprising pages 51 to 52, was approved by order of the Board.

**Rob Campbell**

Chairman

27 March 2014

## Independent auditor's report to the members of Guinness Peat Group plc

### Opinion on financial statements of Guinness Peat Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 37. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

### Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within note 1 on page 64 that the group is a going concern. We confirm that:

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and
- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described on page 54 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

# Independent Auditor's Report continued

Risk	How the scope of our audit responded to the risk
<p><b>Going Concern and the impact of the Pensions Regulator's investigations</b> Management judgement is required including assessing the impact of the Pensions Regulator's investigations</p>	<p>We considered the appropriateness of management's assumptions and estimates used in their cash flow model, challenging those assumptions and considering supporting forecasts, estimates and sensitivities. We considered the appropriateness of management's conclusions over the impact of the Pensions Regulator's investigations, we reviewed management's considerations, board minutes, and correspondence with the pension trustees and met with the legal advisers.</p>
<p><b>Material assumptions underlying retirement benefit obligations</b> The pension schemes represent an area of significant judgement for the financial statements, particularly in relation to the assumptions adopted such as discount, inflation and mortality rates.</p>	<p>We worked with our own actuarial experts to test the assumptions such as discount, inflation and mortality rates underlying management's calculation of the group defined benefit schemes. We have compared these assumptions to industry benchmarks and prior year rates.</p>
<p><b>Provisions and litigation</b> Provisions require significant management judgment including assessing the likely outcome of litigation.</p>	<p>We challenged management's assumptions including a review of corroborative evidence used in determining provisions for litigation, environmental and other provisions both in terms of appropriateness of recognition and in terms of valuation. We carried out testing on movements in the provisions and made enquiries of management. We considered the legal advice management had obtained in relation to litigation and held calls with key legal advisers.</p>
<p><b>Carrying value of intangible assets and tangible assets</b> The impairment test requires significant management judgement and is based on assumptions about future profitability.</p>	<p>We tested management's assumptions used in the impairment model for tangible and intangible assets, described in note 13 to the financial statements, including cash flow projections, discount rate and sensitivities used. We considered the historical accuracy of management's forecasts, challenged the assumptions, reviewed corroborating evidence and applied further sensitivities.</p>
<p><b>Taxation</b> Due to the nature and complexity of tax legislation in the multiple jurisdictions in which the group operates, management are required to exercise a degree of judgement as to the application of corporation tax laws and the recoverability of deferred tax assets.</p>	<p>We worked with our tax specialists in key jurisdictions to evaluate the appropriateness of judgements and assumptions made by management with respect to their assessment and valuation of tax risks, including a review of correspondence with tax authorities.</p> <p>We evaluated management's forecasts and assessed management's conclusions on the sufficiency and availability of future profits to support the recognition of deferred tax assets.</p>
<p><b>Accounting for investment disposals</b> The disposals in the year were significant and due to historical piecemeal acquisitions and disposals, foreign currency and unrealised gains, the accounting is complex</p>	<p>We agreed management's calculations to key sale contracts and evidence of the receipt of proceeds to date. We assessed management's considerations in determining whether a disposal had taken place and the appropriateness of the accounting treatment of those disposals. We reperformed management's calculation of the gains and losses and the related adjustments to the Currency Translation Reserve and the Unrealised Gains Reserve on disposal of the investments.</p>

The Audit, Finance and Risk Committee's consideration of these risks is set out on page 38.

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

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £6.4 million, which is below 1% of adjusted net assets and below 1.5% of net assets. Adjusted net assets is calculated as net assets of £457 million adjusted for deemed pension liabilities of £208 million.

We agreed with the Audit, Finance and Risk Committee that we would report to the Committee all audit differences in excess of £0.35 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit, Finance and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and assessing the risks of material misstatement at the group level. Based on that assessment, we scoped our work primarily under two components: Coats and the head office entities. The head office entities were subject to a mixture of full scope audit and audit of specified balances.

Coats was subject to full statutory audit by the component auditor. The Coats audit itself is a group audit and is also subject to scoping decisions. Our involvement in the Coats component audit is as follows: we follow a programme of planned site visits, we are involved in the auditors planning and scoping, we have access to the component auditor's working papers for review and the Senior Statutory Auditor attends key meetings. Our involvement in the component audit is designed to ensure that the Senior Statutory Auditor has sufficient oversight to assess the suitability for inclusion in the group results.

70% of the group's net assets, 78% of the group's profit before tax and 77% of the group's turnover is subject to full scope audit or audit of specified account balances.

The components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the components identified above was executed at levels of materiality which were lower than group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

### *Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

# Independent Auditor's Report continued

<i>Corporate Governance Statement</i>	<p>Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.</p>
<i>Our duty to read other information in the Annual Report</i>	<p>Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:</p> <ul style="list-style-type: none"><li>• materially inconsistent with the information in the audited financial statements; or</li><li>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or</li><li>• otherwise misleading.</li></ul> <p>In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.</p>
<b>Respective responsibilities of directors and auditor</b>	<p>As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.</p> <p>This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.</p>
<b>Scope of the audit of the financial statements</b>	<p>An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.</p>

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

**27 March 2014**



# Consolidated Income Statement

Year ended 31 December

		2013 IFRS £m			2012* IFRS £m		
	Notes	Coats	Other	Total	Coats	Other	Total
<b>Continuing operations</b>							
<b>Revenue</b>	2,3	1,089	–	1,089	1,043	–	1,043
Cost of sales (2012: including £54m cost in respect of the EC fine)		(709)	–	(709)	(755)	–	(755)
<b>Gross profit</b>		380	–	380	288	–	288
Interest receivable – Parent Group		–	4	4	–	6	6
Distribution costs		(183)	–	(183)	(177)	–	(177)
Administrative expenses		(118)	(43)	(161)	(118)	(24)	(142)
Other operating income		–	1	1	–	–	–
<b>Operating profit/(loss) (2012: £29m profit excluding impact of the EC fine)</b>	2,4	79	(38)	41	(7)	(18)	(25)
Interest and other income – Coats		3	–	3	2	–	2
Share of profit of joint ventures	15a)	1	–	1	1	–	1
Finance costs (net) (Coats – 2012: including £23m cost in respect of the EC fine)	2,6	(27)	(4)	(31)	(53)	(18)	(71)
<b>Profit/(loss) before taxation from continuing operations (2012: £17m loss excluding impact of the EC fine)</b>	5	56	(42)	14	(57)	(36)	(93)
Tax on profit/(loss) from continuing operations	8	(32)	–	(32)	(28)	–	(28)
<b>Profit/(loss) for the year from continuing operations</b>		24	(42)	(18)	(85)	(36)	(121)
<b>Discontinued operations</b>							
Profit/(loss) from discontinued operations	2,33	–	46	46	(2)	97	95
<b>PROFIT/(LOSS) FOR THE YEAR</b>		24	4	28	(87)	61	(26)
<b>Attributable to:</b>							
<b>EQUITY HOLDERS OF THE PARENT</b>		19	4	23	(92)	63	(29)
Non-controlling interests		5	–	5	5	(2)	3
		24	4	28	(87)	61	(26)

**EARNINGS/(LOSS) PER ORDINARY SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS:**

Basic & diluted 10 1.62p\*\* (1.77)p

**LOSS PER ORDINARY SHARE FROM CONTINUING OPERATIONS:**

Basic & diluted 10 (1.58)p\*\*\* (7.76)p

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits".

\*\* Reported in the Preliminary Results Announcement as 1.57p.

\*\*\* Reported in the Preliminary Results Announcement as (1.53)p.

# Consolidated Statement of Comprehensive Income

Year ended 31 December

	2013 IFRS £m	2012* IFRS £m
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>28</b>	(26)
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Net actuarial gains/(losses) on retirement benefit schemes (note 9)	106	(13)
Tax on items that will not be reclassified	1	(1)
	<b>107</b>	(14)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Losses on revaluation of fixed asset investments	(5)	(13)
Exchange losses on translation of foreign operations	(36)	(13)
Gains/(losses) on cash flow hedges	1	(3)
Tax on items that may be reclassified	1	4
Transferred to profit or loss on sale or impairment of fixed asset investments	(11)	(40)
Transferred to profit or loss on sale of businesses	(30)	(39)
Transferred to profit or loss on cash flow hedges	3	3
	<b>(77)</b>	(101)
<b>NET COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR</b>	<b>58</b>	(141)
<b>Attributable to:</b>		
<b>EQUITY HOLDERS OF THE PARENT</b>	<b>53</b>	(143)
Non-controlling interests	5	2
	<b>58</b>	(141)

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits" and amendments to IAS 1 "Presentation of Items in Other Comprehensive Income".

# Consolidated Statement of Financial Position

31 December

		2013 IFRS £m	2012 IFRS £m
<b>NON-CURRENT ASSETS</b>	Notes		
Intangible assets	13	155	160
Property, plant and equipment	14	206	226
Investments in joint ventures	15	8	9
Fixed asset investments	15	2	2
Deferred tax assets	17	8	9
Pension surpluses	9	27	21
Trade and other receivables	19	12	13
		<b>418</b>	<b>440</b>
<b>CURRENT ASSETS</b>			
Inventories	18	170	191
Trade and other receivables	19	207	190
Current asset investments	20	–	10
Derivative financial instruments	21	3	2
Cash and cash equivalents		458	322
		<b>838</b>	<b>715</b>
Assets held for sale	33	1	273
<b>TOTAL ASSETS</b>		<b>1,257</b>	<b>1,428</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	228	220
Current income tax liabilities		11	10
Borrowings	24	50	27
Derivative financial instruments	23	3	4
Provisions	26	48	46
		<b>340</b>	<b>307</b>
<b>NET CURRENT ASSETS</b>		<b>498</b>	<b>408</b>
Liabilities directly associated with assets held for sale	33	–	37
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	22	11	15
Deferred tax liabilities	25	22	25
Borrowings	24	224	278
Derivative financial instruments	23	1	3
Retirement benefit obligations:			
Funded schemes	9	118	225
Unfunded schemes	9	68	61
Provisions	26	16	19
		<b>460</b>	<b>626</b>
<b>TOTAL LIABILITIES</b>		<b>800</b>	<b>970</b>
<b>NET ASSETS</b>		<b>457</b>	<b>458</b>

Notes on pages 64 to 112 form part of these financial statements

# Consolidated Statement of Financial Position continued

31 December

	Notes	2013 IFRS £m	2012 IFRS £m
<b>EQUITY</b>			
Share capital	28	70	78
Share premium account	29	1	–
Translation reserve	29	22	89
Unrealised gains reserve	29	–	14
Capital reduction reserve	29	48	93
Other reserves	29	124	112
Retained earnings	29	179	48
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>444</b>	434
Non-controlling interests	29	13	24
<b>TOTAL EQUITY</b>		<b>457</b>	458
 <b>Net asset backing per share</b>		 <b>31.52p</b>	 27.73p

**Rob Campbell**, Chairman

Approved by the Board on 27 March 2014

Company Registration No.103548

# Company Balance Sheet

31 December

	Notes	2013 UK GAAP £m	2012 UK GAAP £m
<b>FIXED ASSETS</b>			
Investments	15	371	371
<b>TOTAL FIXED ASSETS</b>		<b>371</b>	371
<b>CURRENT ASSETS</b>			
Loans to subsidiary undertakings		3	3
<b>TOTAL CURRENT ASSETS</b>		<b>3</b>	3
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Loans from subsidiary undertakings		175	112
<b>TOTAL CURRENT LIABILITIES</b>		<b>175</b>	112
<b>NET CURRENT LIABILITIES</b>		<b>(172)</b>	(109)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>199</b>	262
<b>PROVISIONS FOR LIABILITIES</b>	26	<b>10</b>	1
<b>NET ASSETS</b>		<b>189</b>	261
<b>CAPITAL AND RESERVES</b>			
Share capital	28	70	78
Share premium account	29	1	–
Capital redemption reserve	29	11	4
Capital reduction reserve	29	48	93
Share options reserve	29	8	8
Other reserves	29	1	1
Profit and loss account	29	50	77
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>189</b>	261

Rob Campbell, Chairman

Approved by the Board on 27 March 2014

Company Registration No.103548



# Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Translation reserve £m	Unrealised gains reserve £m	Capital reduction reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non- controlling interests £m
Balance as at 1 January 2012	81	–	139	64	118	109	91	602	64
Net comprehensive expense for the year	–	–	(50)	(50)	–	–	(43)	(143)	2
Share buybacks	(3)	–	–	–	(25)	3	–	(25)	–
Dividends	–	–	–	–	–	–	–	–	(4)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(38)
<b>BALANCE AS AT 31 DECEMBER 2012</b>	<b>78</b>	<b>–</b>	<b>89</b>	<b>14</b>	<b>93</b>	<b>112</b>	<b>48</b>	<b>434</b>	<b>24</b>
<b>Net comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>(67)</b>	<b>(14)</b>	<b>–</b>	<b>4</b>	<b>130</b>	<b>53</b>	<b>5</b>
<b>Share buybacks (note 28)</b>	<b>(8)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(45)</b>	<b>8</b>	<b>–</b>	<b>(45)</b>	<b>–</b>
<b>Dividends</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(5)</b>
<b>Share issues</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>
<b>Disposal of subsidiaries</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>1</b>	<b>(11)</b>
<b>BALANCE AS AT 31 DECEMBER 2013</b>	<b>70</b>	<b>1</b>	<b>22</b>	<b>–</b>	<b>48</b>	<b>124</b>	<b>179</b>	<b>444</b>	<b>13</b>

# Consolidated Statement of Cash Flows

Year ended 31 December

	Notes	2013 IFRS £m	2012 IFRS £m
<b>Cash inflow from operating activities</b>			
Net cash inflow from operating activities*, ****	32a)	149	134
Interest paid**		(18)	(58)
Taxation paid	32b)	(35)	(24)
<b>Net cash generated by operating activities</b>		<b>96</b>	<b>52</b>
<b>Cash inflow from investing activities</b>			
Investment income	32c)	3	6
Net capital expenditure and financial investment	32d)	(6)	(27)
Acquisitions and disposals****	32e)	129	193
<b>Net cash generated by investing activities</b>		<b>126</b>	<b>172</b>
<b>Cash outflow from financing activities</b>			
Buyback of Ordinary Shares	32f)	(45)	(24)
Dividends paid to non-controlling interests		(5)	(5)
Net decrease in borrowings	32g)	(28)	(142)
<b>Net cash absorbed in financing activities</b>		<b>(78)</b>	<b>(171)</b>
<b>Increase in cash and cash equivalents</b>		<b>144</b>	<b>53</b>
Cash and cash equivalents at beginning of the year		311	259
Exchange losses on cash and cash equivalents		(8)	(1)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>447</b>	<b>311</b>
Cash and cash equivalents per the Consolidated Statement of Financial Position		458	322
Bank overdrafts	24	(11)	(11)
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>447</b>	<b>311</b>
<b>Summary of net cash</b>			
– Parent Group*** cash		383	243
– Other group cash		75	79
– Other group debt	24	(274)	(305)
<b>Total group net cash</b>		<b>184</b>	<b>17</b>

\* 2012 includes £88 million paid in respect of the EC fine.

\*\* 2012 includes £23 million paid in respect of the EC fine.

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

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

# Notes to Financial Statements

## 1. Principal Accounting Policies

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

### GROUP

#### Critical Accounting Policies

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

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

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

- > Carrying value of brands  
The carrying value of brands is dependent on the calculation of discounted cash flows arising from the cash-generating units to which those assets relate. Changes in either the discount rates applied or the estimated cash flows could materially change the carrying values of these intangible assets.
- > Provisions  
In determining the level of provisions held at year end the Board takes advice from external experts as appropriate. The nature of the estimates adopted is such that the final liability that crystallises may differ from these estimates.

#### A) Accounting Convention And Format

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the

European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards and Standing Interpretations Committee interpretations approved by the predecessor International Accounting Standards Committee that have been subsequently authorised by the IASB and remain in effect.

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

#### B) Basis Of Preparation

##### Subsidiaries

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

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

These financial statements incorporate the consolidated results of Coats Group

Limited ("CGL") as adjusted to account for the Coats capital incentive plan ("CIP"), on a basis consistent with that required to be adopted by GPG.

The investment operations of the Parent Group are classified as discontinued operations (see note 33). The assets and liabilities of the Parent Group's investment activities at 31 December 2013 and 2012 are accounted for in accordance with the policy applying to disposal groups.

#### Joint ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are accounted for using the equity method as allowed under the 'alternative accounting rules' set out in IAS 31 – Interests in Joint Ventures.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with the other venturers are recognised in the consolidated financial statements. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be reliably measured.

#### Going concern

Giving due consideration to the nature of the Group's business and underlying investments, taking account of the following matters: the ability of the Group to realise its liquid investments and to manage the timing of such liquidations; the Group's foreign currency exposures; the potential requirement to provide financial support to the Group's UK pension schemes; the appropriate capital structure to be adopted by GPG in the future; and the factors which will determine further returns of surplus cash to shareholders; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis. Further detail is contained in the Corporate Governance section on page 36.

#### C) Foreign Currencies

##### Foreign currency translation

The Company's functional and the Group's presentation currency is the Pound Sterling. Transactions in foreign currencies

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

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

#### Group companies

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

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

#### D) Segment Reporting

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

#### E) Property, Plant And Equipment Owned assets

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

#### Leased assets

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

#### Subsequent expenditure

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

#### Depreciation

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

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

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

#### F) Intangible Assets Goodwill

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

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

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

Negative goodwill is recognised immediately in the income statement.

#### Brands

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

#### Other intangibles

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

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

#### Impairment of assets

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

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have

## Notes to Financial Statements continued

not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

### Research and development

All research costs are expensed as incurred.

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

- > An asset is created that can be separately identified;
- > It is probable that the asset created will generate future economic benefits; and
- > The development costs can be measured reliably.

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

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

### G) Financial Instruments

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

#### Financial assets

##### (i) Investments

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

Net gains and losses recognised in profit or loss on disposal of investments do not

incorporate dividends or interest receivable on those assets.

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

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

The fixed asset investments of the Parent Group are classified at 31 December 2013 and 2012 as held for sale.

##### (ii) Cash and cash equivalents

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

##### (iii) Trade and other receivables

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

#### Financial liabilities

##### (i) Trade payables

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

##### (ii) Borrowings

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

##### (iii) Compound instruments

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

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

##### (iv) Derivative financial instruments and hedge accounting

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

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

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

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

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

##### (v) Fair value hedges

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



**(vi) Cash flow hedges**

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

**(vii) Hedges of net investments in foreign operations**

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

**H) Revenue**

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

**(i) Sales of goods**

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

**(ii) Sales of services**

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

**(iii) Income from sales of property**

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

**(iv) Investment revenue**

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

**I) Inventories**

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

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

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

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

**J) Employee Benefits****(i) Retirement and other post-employment obligations**

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

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

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

Net interest expense or income is recognised within finance costs.

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

In addition, pension scheme administrative expenses including the PPF (Pension Protection Fund) levy and actuary, audit,

legal and trustee charges are recognised as administrative expenses.

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

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

**(ii) Share-based compensation Cash-settled**

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

**Equity-settled**

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

# Notes to Financial Statements continued

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

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

## (iv) Termination benefits

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

## K) Taxation

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

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced

to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

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

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

## L) Investment Income

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

## M) Borrowing Costs

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

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

## N) Provisions

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

## O) Onerous Contracts

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

## P) Restructuring

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

## Q) Assets Held For Sale And Discontinued Operations

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

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

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

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

## R) Cash Flow

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

Acquisitions and disposals of fixed asset investments, associated undertakings and joint ventures, together with dividends received from associated undertakings and

joint ventures, in respect of the Group's operating subsidiaries, remain within cash flows from investing activities, as these are strategic investments by those subsidiaries rather than being held for investment gains.

### NEW IFRS ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED IN THE YEAR

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

Amendments to IAS 19 (revised) ("Employee benefits");

Amendments to IAS 1 ("Presentation of items of other comprehensive income"); and

IFRS 13 ("Fair value measurement").

IAS 19 (revised) has impacted the accounting for the Group's defined benefit schemes by replacing the interest cost and expected return on plan assets with a net interest amount on net defined assets and liabilities. In addition, pension scheme administrative expenses including the PPF levy and actuary, audit, legal and trustee charges are recognised as administrative expenses within the Consolidated Income Statement. There have been no changes to the Group's total defined benefit obligations recognised in the Consolidated Statement of Financial Position or to the net cash inflow generated by operations recognised in the Consolidated Statement of Cash Flows.

The impact of adoption of IAS 19 (revised) is set out in Note 9 on page 76.

Other than a change in presentation of items within the Consolidated Statement of Comprehensive Income, the adoption of amendments to IAS 1 has no impact on the consolidated financial statements.

The adoption of IFRS 13 has had no significant impact on these consolidated financial statements.

### NEW IFRS ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

From the year beginning 1 January 2014:

IFRS 10 ("Consolidated financial statements");

IFRS 11 ("Joint arrangements");

IFRS 12 ("Disclosure of interests in other entities");

IAS 27 (revised) ("Separate financial statements");

IAS 28 (revised) ("Investments in associates and joint ventures");

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

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

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

From the year beginning 1 January 2015:

IFRS 9 ("Financial instruments").

None of the above standards/amendments to existing standards is expected to have any significant future impact on the Group's consolidated financial statements.

### COMPANY

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

#### A) Fixed Assets – Investments

Investments acquired with the intention of being held for the long term (excluding investments in subsidiaries and associated undertakings) are recorded as fixed asset investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period.

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

#### B) Investment Income

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

### C) Share-Based Compensation

#### Cash-settled

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

#### Equity-settled

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

### D) Taxation

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

### E) Dividends Payable

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

# Notes to Financial Statements continued

## 2. Segmental Analysis

### Operating Segments

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

## 2. Segmental Analysis continued

2012*	Thread manufacture £m	Investment £m	Fruit/produce distribution £m	Unallocated £m	Non-operating (see note (ii)) £m	Total £m
<b>a) Revenue</b>						
External sales	1,043	–	–	–	–	1,043
<b>b) Results</b>						
<i>Continuing operations:</i>						
Operating loss	(7)	(18)	–	–	–	(25)
Interest income – Coats	2	–	–	–	–	2
Share of joint ventures' results	1	–	–	–	–	1
Finance costs (net)	(53)	(18)	–	–	–	(71)
Tax charge	(28)	–	–	–	–	(28)
Loss after tax	(85)	(36)	–	–	–	(121)
<i>Discontinued operations:</i>						
(Loss)/profit after tax	(2)	78	25	(6)	–	95
<b>c) Assets and Liabilities</b>						
Assets	793	258	–	–	377	1,428
<i>includes share of joint ventures' net assets</i>	9	–	–	–	–	9
Liabilities	(483)	(93)	–	–	(394)	(970)
<b>d) Other disclosures</b>						
Tangible fixed assets – additions	17	2	–	2	–	21
Intangible assets – additions	4	–	–	–	–	4
Impairment of tangible fixed assets	(2)	–	–	(7)	–	(9)
Depreciation charge	(30)	–	–	(1)	–	(31)
Impairment of intangible assets	(1)	–	–	–	–	(1)
Amortisation charge	(4)	–	–	–	–	(4)
Investment impairment	–	(3)	–	–	(10)	(13)

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

### Geographic Segments

	2013			2012		
	External revenue		Non-current assets	External revenue		Non-current assets
	By origin £m	By destination £m	(see note (ii)) £m	By origin £m	By destination £m	(see note (ii)) £m
United Kingdom	14	21	157	16	21	159
Europe, Middle East & Africa (EMEA)						
– Germany	74	50	8	62	41	13
– Rest of EMEA	194	210	45	188	202	45
Americas						
– USA	194	188	20	177	174	21
– Rest of North America	13	16	–	15	18	–
– Brazil	78	78	17	89	89	22
Asia & Rest of world						
– New Zealand	1	1	–	1	1	–
– India	105	100	24	104	102	27
– China & Hong Kong	106	92	26	101	94	30
– Australia	3	4	–	4	4	–
– Other	307	329	73	286	297	79
<b>Total</b>	<b>1,089</b>	<b>1,089</b>	<b>370</b>	<b>1,043</b>	<b>1,043</b>	<b>396</b>

Notes:

(i) Non-operating items comprise:

Assets – cash and cash equivalents, derivatives and investments held by operating subsidiaries, which are not considered to be financial operations, plus taxation assets and non-current assets classified as held for sale; and Liabilities – borrowings, taxation liabilities and liabilities directly associated with non-current assets classified as held for sale.

(ii) Non-current assets exclude financial instruments, deferred tax, pension assets, rights under insurance contracts and non-current assets held for sale.

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits".



# Notes to Financial Statements continued

## 3. Revenue

Year ended 31 December	2013 £m	2012 £m
<b>Continuing operations:</b>		
Sale of industrial thread, Speciality and zips	775	741
Sale of consumer textiles crafts	314	302
Total sales – continuing operations	1,089	1,043
Interest receivable and other investment income	7	8
	1,096	1,051
<b>Discontinued operations:</b>		
Sale of investments	9	–
Food/produce distribution	–	75
Unallocated	2	33
Total sales – discontinued operations	11	108
Interest receivable and other investment income	5	7
	16	115
Total	1,112	1,166

## 4. Operating Profit/(Loss)

Year ended 31 December	2013 £m	2012* £m
Cost of sales (2012: including £54 million in respect of EC fine)	(709)	(755)
Gross profit	380	288
Interest receivable – Parent Group	4	6
Distribution costs	(183)	(177)
Administrative expenses**	(161)	(142)
<b>Net operating expenses</b>	<b>(344)</b>	<b>(319)</b>
Other operating income	1	–
<b>Operating profit/(loss) (2012: £29m profit excluding impact of the EC fine)</b>	<b>41</b>	<b>(25)</b>

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits".

\*\* Includes amortisation of other intangibles of £3 million (2012: £4 million) and impairment of brands £1 million (2012: £1 million).

## 5. Profit/(Loss) Before Taxation from Continuing Operations

Year ended 31 December	2013 £m	2012* £m
Profit/(loss) before taxation is stated after charging/(crediting):		
Amortisation of intangible assets	3	4
Impairment of intangible assets	1	1
Depreciation of property, plant and equipment	29	30
Impairment of property, plant and equipment	–	2
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts**	–	–
– Fees payable for the audit of the Company's subsidiaries	2	2
Other Deloitte LLP services:		
– Taxation services	1	1
Total fees charged by Deloitte LLP	3	3
Operating lease rentals:		
– Plant and equipment	5	5
– Other	11	10
Cash-settled share-based payments	–	(2)
Research and development expenditure	1	1
Bad and doubtful debts	1	2
Net foreign exchange losses	2	2
Rental income from land and buildings	(2)	(2)
Inventory as a material component of cost of sales	417	407
Inventory write-downs to net realisable value	4	6
European Commission fine, including interest	–	76

The Company-only charge for equity-settled share-based payments is £Nil (2012: £23,000).

## 6. Finance Costs (net)

Year ended 31 December	2013 £m	2012* £m
Employee benefits (note 9):		
Interest on defined benefit obligations	(84)	(91)
Interest on scheme assets	74	80
Effect of asset cap	(1)	(1)
Net finance cost of employee benefits	(11)	(12)
Interest payable on bank loans and overdrafts	(20)	(21)
European Commission fine interest costs	–	(23)
Unwinding of discount on provisions	–	(1)
Interest payable on Capital Notes	–	(14)
	(31)	(71)

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits".

\*\* The audit fee payable to the Company's auditor for the audit of the Company's annual accounts is £115,700 (2012: £179,600).

# Notes to Financial Statements continued

## 7. Employee Information

Year ended 31 December	2013	2012
<b>The average monthly number of employees (including executive directors) in the Group during the year was:</b>		
Continuing operations:		
Corporate	14	17
Thread manufacture	20,925	21,501
	<b>20,939</b>	21,518
Discontinued operations	30	566
<b>TOTAL NUMBER OF EMPLOYEES</b>	<b>20,969</b>	22,084
<b>The average monthly number of employees (including executive directors) in the Company during the year was:</b>		
Corporate	9	9

### Employment costs – all employees including directors:

	Group		Company	
Year ended 31 December	2013 £m	2012* £m	2013 £m	2012 £m
<b>Continuing operations</b>				
Aggregate gross wages and salaries	241	215	4	3
Employer's national insurance contributions or foreign equivalents	24	26	–	–
Employer's pension cost**	12	14	–	–
	<b>277</b>	255	<b>4</b>	3
<b>Discontinued operations</b>				
Aggregate gross wages and salaries	3	24		
Employer's national insurance contributions or foreign equivalents	–	1		
Employer's pension cost	–	1		
	<b>3</b>	26		
	<b>280</b>	281		

The Parent Group has an accrued liability for holiday pay and long service leave, for staff excluding directors, of £Nil (2012: £2 million).

### Directors' emoluments

Aggregate emoluments	1	1
Pension contributions	–	–
	<b>1</b>	1

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits".

\*\* Excludes net finance cost on employee benefits and actuarial gains and losses.

## 8. Tax on Profit/(Loss) from Continuing Operations

Year ended 31 December	2013 £m	2012* £m
Current tax:		
UK corporation tax at 23.25% (2012: 24.5%)	–	–
Overseas tax charge	(32)	(29)
	<u>(32)</u>	<u>(29)</u>
Deferred tax credit	–	1
<b>Total tax charge</b>	<u>(32)</u>	<u>(28)</u>
The tax charge for the year can be reconciled as follows:		
Profit/(loss) before taxation from continuing operations	14	(93)
Profit/(loss) before taxation multiplied by standard rate of tax in the UK of 23.25% (2012: 24.5%)	3	(23)
Impact of differences in overseas tax rates	3	1
European Commission fine	–	19
Other non-deductible expenditure	5	7
Impact of tax losses and other unprovided deferred tax	21	24
<b>Total tax charge</b>	<u>32</u>	<u>28</u>

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

## 9. Employee Benefit Costs

### (a) Pension and other post-employment costs

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

Year ended 31 December	£m	2013 £m	£m	2012* £m
Defined contribution schemes		3		2
Defined benefit schemes – Coats UK funded	(2)		2	
Coats US funded	2		2	
Other Coats funded and unfunded	3		3	
		<u>3</u>		7
Staveley		–		–
Brunel		–		–
Administrative expenses for defined benefit schemes		6		5
		<u>12</u>		<u>14</u>

### (b) Defined contribution schemes

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

### (c) Defined benefit schemes

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

\* Restated to reflect the impact of adoption of IAS 19 (revised) "Employee Benefits".

# Notes to Financial Statements continued

## 9. Employee Benefit Costs continued

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

The Group is exposed to actuarial risks including:

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

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

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

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

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

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2013. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2012 for the Coats UK scheme, 31 December 2013 for the Coats US scheme, 5 April 2011 for the Staveley scheme and 31 March 2010 for the Brunel scheme.

As stated in note 1, IAS 19 (revised) "Employee Benefits" was adopted during the year. The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income for the year ended 31 December 2012 have been restated, and the impact on those Statements in 2013 and 2012 is set out below:

Year ended 31 December	2013 £m	2012 £m
Increase in operating expenses re administration costs	(6)	(5)
Increase in finance costs	(29)	(22)
Decrease in tax charge	1	1
Increase in net actuarial gains/decrease in net actuarial losses in other comprehensive income	34	26

All 31 December 2012 numbers in this note have been restated where appropriate.

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

Principal assumptions at 31 December 2012	Coats UK %	Coats US %	Coats other %	Staveley %	Brunel %
Rate of increase in salaries	3.6	4.0	3.9	–	–
Rate of increase for pensions in payment	2.6	–	2.3	Various	Various
Discount rate	4.1	3.7	4.2	4.1	4.1
Inflation assumption	2.6	2.5	2.9	2.6	2.6



## 9. Employee Benefit Costs continued

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

For the year ended 31 December 2013	Coats				Staveley £m	Brunel £m	Group £m
	UK £m	US £m	other £m	Coats total £m			
Current service cost	(2)	(2)	(3)	(7)	–	–	(7)
Past service credit	4	–	–	4	–	–	4
Administrative expenses	(4)	–	–	(4)	(1)	(1)	(6)
Included in operating profit	(2)	(2)	(3)	(7)	(1)	(1)	(9)
Interest on defined benefit obligations – unwinding of discount	(63)	(4)	(3)	(70)	(8)	(6)	(84)
Interest on pension scheme assets	56	6	1	63	7	4	74
Effect of asset cap	–	(1)	–	(1)	–	–	(1)
Included in finance costs – net interest (expense)/income	(7)	1	(2)	(8)	(1)	(2)	(11)
For the year ended 31 December 2012	Coats				Staveley £m	Brunel £m	Group £m
	UK £m	US £m	other £m	Coats total £m			
Current service cost	(2)	(2)	(3)	(7)	–	–	(7)
Administrative expenses	(3)	–	–	(3)	(1)	(1)	(5)
Included in operating profit	(5)	(2)	(3)	(10)	(1)	(1)	(12)
Interest on defined benefit obligations – unwinding of discount	(67)	(4)	(4)	(75)	(9)	(7)	(91)
Interest on pension scheme assets	60	6	1	67	8	5	80
Effect of asset cap	–	(1)	–	(1)	–	–	(1)
Included in finance costs – net interest (expense)/income	(7)	1	(3)	(9)	(1)	(2)	(12)

During the year ended 31 December 2013 the Group offered certain pensioners within the Coats UK scheme the opportunity to uplift their pension with effect from March 2014, in return for giving up rights to annual inflationary increases. The level of pensioner acceptance resulted in a past service credit of £4 million for the year ended 31 December 2013 (2012 – £Nil), net of costs, reflecting the reduction in liabilities which had arisen.

The actual return on scheme assets was £145 million (2012 – £166 million) for the Coats UK scheme, £3 million (2012 – £19 million) for the Coats US scheme, £2 million (2012 – £3 million) for the other Coats schemes, £16 million (2012 – £15 million) for the Staveley scheme and £12 million (2012 – £9 million) for the Brunel scheme.

# Notes to Financial Statements continued

## 9. Employee Benefit Costs continued

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

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

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

Non-current assets:	
Funded	27
Current assets:	
Funded (within other receivables)	3
Current liabilities:	
Funded (within provisions)	(18)
Unfunded (within provisions)	(4)
Non-current liabilities:	
Funded	(118)
Unfunded	(68)
	<u>(178)</u>

## 9. Employee Benefit Costs continued

As at 31 December 2012	Coats				Staveley £m	Brunel £m	Group £m
	UK £m	US £m	other £m	Coats total £m			
Cash and cash equivalents	40	3	3	46	5	3	54
Equity instruments:							
US	–	21	–	21	–	–	21
UK	325	4	–	329	84	66	479
Eurozone	–	8	–	8	–	–	8
Other regions	261	10	9	280	–	–	280
Debt instruments:							
Corporate bonds	668	82	7	757	85	47	889
Government/sovereign instruments	21	20	4	45	8	–	53
Real estate	93	–	–	93	–	–	93
Derivatives:							
Longevity swap	12	–	–	12	–	–	12
Assets held by insurance company:							
Insurance contracts	2	–	1	3	1	–	4
Other	–	–	–	–	–	–	–
Total market value of assets	1,422	148	24	1,594	183	116	1,893
Actuarial value of scheme liabilities	(1,583)	(100)	(92)	(1,775)	(219)	(154)	(2,148)
Gross net (liability)/asset in the scheme	(161)	48	(68)	(181)	(36)	(38)	(255)
Adjustment due to surplus cap	–	(25)	(1)	(26)	–	–	(26)
Recoverable net (liability)/asset in the scheme	(161)	23	(69)	(207)	(36)	(38)	(281)

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

### Non-current assets:

Funded 21

### Current assets:

Funded (within other receivables) 4

### Current liabilities:

Funded (within provisions) (15)

Unfunded (within provisions) (5)

### Non-current liabilities:

Funded (225)

Unfunded (61)

(281)

Virtually all of the asset classes in the tables have quoted prices in active markets and are therefore classified as level 1 instruments. Derivatives are classified as level 2 instruments and included within insurance contract assets are £2m (2012 – £2m) of instruments that are classified as level 3.

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

# Notes to Financial Statements continued

## 9. Employee Benefit Costs continued

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

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

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

The Coats UK and US schemes as well as the Staveley and Brunel schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2013, £72 million (2012 – £67 million) related to wholly unfunded arrangements.

Year ended 31 December	2013 £m	2012 £m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	(2,148)	(2,028)
Current service cost	(7)	(7)
Past service credit	4	–
Interest on defined benefit obligations – unwinding of discount	(84)	(91)
Actuarial losses on obligations	(5)	(149)
Benefits paid	127	127
Transfer from other provisions	–	(8)
Exchange difference	4	8
At 31 December	(2,109)	(2,148)
Movements in the fair value of scheme assets were as follows:		
At 1 January	1,893	1,788
Interest on scheme assets	74	80
Actuarial gains on assets	110	136
Contribution from sponsoring companies	16	19
Benefits paid	(125)	(126)
Administrative expenses paid from plan assets	(6)	(5)
Transfers	–	9
Exchange difference	(6)	(8)
At 31 December	1,956	1,893
Actuarial gains and losses were as follows:		
Effect of changes in demographic assumptions	–	(11)
Effect of changes in financial assumptions	17	(128)
Effect of experience adjustments	(22)	(10)
Return on plan assets (excluding interest income)	110	136
Adjustment due to surplus cap	1	–
Included in the statement of comprehensive income	106	(13)

## 9. Employee Benefit Costs continued

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

	Year ended 31 December 2013				Year ended 31 December 2012			
	Coats UK Years	Coats US Years	Staveley Years	Brunel Years	Coats UK Years	Coats US Years	Staveley Years	Brunel Years
Retiring today at age 60:								
Males	25.6	24.1	25.3	25.9	25.5	23.5	25.5	25.5
Females	27.6	25.9	28.4	26.1	27.5	25.4	27.5	27.5
Retiring in 20 years at age 60:								
Males	27.6	25.7	26.9	27.5	27.5	25.2	27.5	27.5
Females	29.6	26.8	30.1	27.8	29.5	26.3	29.5	29.5

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

Year ended 31 December	+0.1% £m	2013 -0.1% £m	+0.1% £m	2012 -0.1% £m
Coats UK discount rate	(22)	23	(21)	21
Coats US discount rate	(1)	1	(1)	1
Staveley discount rate	(3)	3	(3)	3
Brunel discount rate	(2)	2	(2)	2
Coats UK inflation rate	18	(17)	16	(16)
Coats US inflation rate	–	–	–	–
Staveley inflation rate	2	(2)	2	(2)
Brunel inflation rate	1	(1)	1	(1)

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

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



# Notes to Financial Statements continued

## 9. Employee Benefit Costs continued

Year ended 31 December		2013 –1% £m		Valuation trend 2012 –1% £m
	+1% £m		+1% £m	
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	–	–	–	–
Effect on defined benefit obligation of other schemes	1	(1)	–	–

The triennial valuation of the Coats UK pension plan as at April 2012 showed an actuarial deficit of £215 million, which equated to a funding level of 87%. A fourteen year recovery plan has been agreed with the trustee, under which contributions of £16 million per annum are payable from November 2013 (of which £2 million per annum relates to future service). This recovery plan will be reviewed at the next triennial valuation as at April 2015. A triennial valuation for Staveley was undertaken as at April 2011 and was finalised during 2012, resulting in an actuarial funding deficit of £20 million, which equated to a funding level of 90%. A recovery plan was agreed, comprised of an initial payment of £5 million followed by monthly payments commencing from July 2012 amounting to £1.3m per annum for eight years. The trustee of the Staveley scheme has called for a funding valuation with an effective date of 31 December 2013. The last triennial valuation of the Brunel scheme, as at April 2010, was completed in 2011. This did not result in a requirement to make contributions. The April 2013 triennial valuation for Brunel is expected to be completed during the year ended 31 December 2014. The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2014 financial year is £22 million.

The weighted average duration of benefit obligations is 14.27 years for the Coats UK scheme and 7.9 years for the Coats US scheme, 12.84 years for the Staveley scheme and 12.20 years for the Brunel scheme.

## 10. Earnings/(Loss) per Ordinary Share

Basic earnings/(loss) per share ("EPS") from continuing and discontinued operations is calculated by dividing the profit attributable to equity holders of the parent company of £23 million (2012: loss £29 million) by the weighted average number of Ordinary Shares in issue during the year of 1,433,827,035 (2012: 1,618,876,707).

Basic loss per share from continuing operations is calculated by dividing the loss attributable to equity holders of the parent company of £23 million (2012: £126 million) by the weighted average number of Ordinary Shares in issue during the year of 1,433,827,035 (2012: 1,618,876,707).

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

Year ended 31 December	Profit 2013 £m	Shares 2013 m	Amount per share** (pence)
<b>Continuing and discontinued operations:</b>			
Earnings attributable to equity holders of the parent company	23	1,434	1.62p
Year ended 31 December	Loss 2012 £m	Shares 2012 m	Amount per share** (pence)
<b>Continuing and discontinued operations:</b>			
Loss attributable to equity holders of the parent company	(29)	1,619	(1.77)p*
Year ended 31 December	Loss 2013 £m	Shares 2013 m	Amount per share** (pence)
<b>Continuing operations:</b>			
Loss attributable to equity holders of the parent company	(23)	1,434	(1.58)p
Year ended 31 December	Loss 2012 £m	Shares 2012 m	Amount per share** (pence)
<b>Continuing operations:</b>			
Loss attributable to equity holders of the parent company	(126)	1,619	(7.76)p*

\* The comparatives for the year ended 31 December 2012 have been adjusted to reflect the impact of adoption of IAS19 (revised) "Employee Benefits".

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

## 11. Dividends

No dividend in respect of the year ended 31 December 2013 was paid to GPG shareholders during the year (2012: £Nil).

## 12. Results of Holding Company

A loss of £27 million (2012: profit of £68 million) has been dealt with in the accounts of the Company. As permitted by Section 408 of the Companies Act 2006, the Company has not published a separate profit and loss account in these financial statements.

## 13. Intangible Assets

### Group

	Goodwill £m	Brands £m	Other intangibles £m	Total £m
<b>COST</b>				
At 1 January 2012	12	160	63	235
Currency translation differences	–	(7)	(2)	(9)
Additions	–	–	4	4
Transfer to non-current assets held for sale	(11)	–	(14)	(25)
Disposals	–	–	(1)	(1)
AT 31 DECEMBER 2012	1	153	50	204
Currency translation differences	–	(4)	(1)	(5)
Additions	–	–	2	2
Disposals	–	(1)	–	(1)
<b>AT 31 DECEMBER 2013</b>	<b>1</b>	<b>148</b>	<b>51</b>	<b>200</b>
<b>CUMULATIVE AMOUNTS CHARGED</b>				
At 1 January 2012	10	1	55	66
Currency translation differences	–	–	(2)	(2)
Impairment charge for the year (including £Nil re discontinued operations)	–	1	–	1
Amortisation charge for the year (including £Nil re discontinued operations)	–	–	4	4
Transfer to non-current assets held for sale	(10)	–	(14)	(24)
Disposals	–	–	(1)	(1)
AT 31 DECEMBER 2012	–	2	42	44
Currency translation differences	–	(1)	(1)	(2)
Impairment charge for the year (including £Nil re discontinued operations)	–	1	–	1
Amortisation charge for the year (including £Nil re discontinued operations)	–	–	3	3
Disposals	–	(1)	–	(1)
<b>AT 31 DECEMBER 2013</b>	<b>–</b>	<b>1</b>	<b>44</b>	<b>45</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2013</b>	<b>1</b>	<b>147</b>	<b>7</b>	<b>155</b>
NET BOOK VALUE AT 31 DECEMBER 2012	<b>1</b>	<b>151</b>	<b>8</b>	<b>160</b>

The carrying value of brands at 31 December 2013 and 31 December 2012 related to Coats. There is no foreseeable limit to the net cash inflows from royalties, which are generated from continued sales of thread resulting from the Coats brands, and those brands are therefore assessed as having indefinite useful lives. The recoverable amount of these brands has been estimated using the value in use and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on management's recent budgets and forecasts covering the period to 31 December 2015, applying a pre-tax weighted average cost of capital of the relevant business unit and a terminal value including no growth.

The pre-tax weighted average cost of capital applied above is 10.0%. An increase in the weighted average cost of capital to 19.4% would reduce the recoverable amount to book value.

# Notes to Financial Statements continued

## 14. Property, Plant and Equipment

### Group

	Land and buildings £m	Plant and equipment £m	Vehicles and office equipment £m	Land for development £m	Total £m
<b>COST</b>					
At 1 January 2012	148	472	93	38	751
Currency translation differences	(5)	(21)	(3)	(1)	(30)
Additions (including £1m interest capitalised)	5	11	4	1	21
Transfer to current assets	–	–	–	(2)	(2)
Transfer to non-current assets held for sale	(15)	(12)	(1)	(20)	(48)
Reclassifications	–	1	(1)	(16)*	(16)
Disposals	(2)	(10)	(3)	–	(15)
AT 31 DECEMBER 2012	131	441	89	–	661
Currency translation differences	(5)	(25)	(3)	–	(33)
Additions	3	14	7	–	24
Transfer to non-current assets held for sale	(6)	–	–	–	(6)
Reclassifications	–	(1)	1	–	–
Disposals	–	(18)	(4)	–	(22)
<b>AT 31 DECEMBER 2013</b>	<b>123</b>	<b>411</b>	<b>90</b>	<b>–</b>	<b>624</b>
	Land and buildings £m	Plant and equipment £m	Vehicles and office equipment £m	Land for development £m	Total £m
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2012	64	304	80	–	448
Currency translation differences	(3)	(13)	(4)	–	(20)
Impairment charge for the year (including £7m re discontinued operations)	2	2	–	5	9
Depreciation charge for the year (including £1m re discontinued operations)	4	23	4	–	31
Transfer to non-current assets held for sale	(6)	(8)	(1)	(5)	(20)
Disposals	(1)	(9)	(3)	–	(13)
AT 31 DECEMBER 2012	60	299	76	–	435
Currency translation differences	(2)	(18)	(2)	–	(22)
Depreciation charge for the year	4	21	4	–	29
Transfer to non-current assets held for sale	(3)	–	–	–	(3)
Disposals	–	(17)	(4)	–	(21)
<b>AT 31 DECEMBER 2013</b>	<b>59</b>	<b>285</b>	<b>74</b>	<b>–</b>	<b>418</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2013</b>	<b>64</b>	<b>126</b>	<b>16</b>	<b>–</b>	<b>206</b>
NET BOOK VALUE AT 31 DECEMBER 2012	71	142	13	–	226

\* Land for development reclassification to interests in joint ventures.

## 14. Property, Plant and Equipment continued

	Land and buildings £m	Plant and equipment £m	Vehicles and office equipment £m	Land for development £m	Total £m
<b>Assets charged as security for borrowings:</b>					
<b>31 DECEMBER 2013</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>2</b>
31 DECEMBER 2012	–	3	–	–	3

31 December

**2013  
£m**

2012  
£m

### Analysis of Net Book Value of Land and Buildings

Freehold	<b>57</b>	64
Leasehold:		
Over 50 years unexpired	<b>1</b>	1
Under 50 years unexpired	<b>6</b>	6
	<b>64</b>	71

## 15. Non-current Investments

	<b>Group</b>		<b>Company</b>	
31 December	<b>2013 £m</b>	2012 £m	<b>2013 £m</b>	2012 £m
Interests in joint ventures (see note a) below)	<b>8</b>	9	–	–
Fixed asset investments (see note b) below):				
listed investments	<b>1</b>	1	–	–
unlisted investments	<b>1</b>	1	–	–
Interests in subsidiary undertakings (see note c) below)	<b>–</b>	–	<b>371</b>	371
	<b>10</b>	11	<b>371</b>	371

### a) Group – Interests in joint ventures

	<b>£m</b>
At 1 January 2013	<b>9</b>
Currency translation differences	<b>(1)</b>
Dividends receivable	<b>(1)</b>
Share of profit after tax	<b>1</b>
<b>AT 31 DECEMBER 2013</b>	<b>8</b>

31 December	<b>2013 £m</b>	2012 £m
Share of net assets on acquisition	<b>6</b>	7
Share of post-acquisition retained profits	<b>2</b>	2
Share of net assets	<b>8</b>	9

# Notes to Financial Statements continued

## 15. Non-current Investments continued

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

Year ended 31 December	2013 £m	2012 £m
<b>SUMMARISED INCOME STATEMENT INFORMATION</b>		
Revenue	18	99
Profit before tax	1	6
Taxation	–	(4)
<b>PROFIT AFTER TAX (OF WHICH DISCONTINUED OPERATIONS £NIL (2012: £1 MILLION))</b>	<b>1</b>	<b>2</b>
 31 December		
<b>SUMMARISED BALANCE SHEET INFORMATION</b>		
Non-current assets	5	41
Current assets	8	21
	13	62
Liabilities due within one year	(5)	(9)
Liabilities due after more than one year	–	(8)
<b>NET ASSETS (OF WHICH £NIL (2012: £36 MILLION) INCLUDED IN ASSETS HELD FOR SALE (NOTE 33))</b>	<b>8</b>	<b>45</b>

The Group's share of joint ventures' borrowings is £Nil (2012: £2 million).

See note 30 for details of a guarantee provided by the Group in respect of the banking facilities of Australian Country Spinners Ltd.

None of the Group's joint ventures at 31 December 2013 was listed (2012: none).

No joint ventures are held directly by GPG.

### b) Group – Fixed asset investments

	Listed investments £m	Unlisted investments £m	Total £m
At 1 January 2013	1	1	2
Additions	–	1	1
Disposals	–	(1)	(1)
<b>AT 31 DECEMBER 2013</b>	<b>1</b>	<b>1</b>	<b>2</b>

### c) Company

	Investments in subsidiary undertakings £m
At 1 January 2013 and 31 December 2013	371



## 16. Principal Subsidiary Undertakings

The Group's principal subsidiary undertakings at 31 December 2013, all of which are included in the Group's consolidated financial statements, are set out below:

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

\* These subsidiaries are owned indirectly by the Company.

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

\*\*\*56.7% owned directly by the Company.

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

	Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2013 £m	2012 £m	2013 £m	2012 £m
Within Coats plc	5	5	13	12
CIC Australia Ltd (sold in 2013)	—	(2)	—	12
	<u>5</u>	<u>3</u>	<u>13</u>	<u>24</u>

## 17. Deferred Tax Assets

	Group 2012 £m	2013 £m
31 December		
Deferred tax assets	9	8

The Group's deferred tax assets are included within the analysis in note 25.

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

	2012 £m	2013 £m
At 1 January	12	9
(Charged)/credited to the income statement	1	(1)
Reclassification to non-current assets held for sale	(4)	—
<b>AT 31 DECEMBER</b>	<b>9</b>	<b>8</b>

## 18. Inventories

	Group 2012 £m	2013 £m
31 December		
Raw materials and consumables	56	49
Work in progress	39	34
Finished goods and goods for resale	96	87
	<u>191</u>	<u>170</u>

# Notes to Financial Statements continued

## 19. Trade and Other Receivables

31 December	2013 £m	Group 2012 £m
Trade receivables	162	151
Amounts owed by joint ventures	1	1
Taxation recoverable (of which £1 million due after more than one year (2012: £1 million))	6	3
Other receivables	37	36
Prepayments and accrued income	13	12
	<b>219</b>	<b>203</b>
Amounts shown within non-current assets	(12)	(13)
Amounts shown within current assets	<b>207</b>	<b>190</b>

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

Total trade receivables (net of allowances) at 31 December 2013 amounted to £162 million (2012: £153 million), including £Nil (2012: £2 million) classified as held for sale (note 33).

The average credit period taken on sales of goods is 60 days (2012: 53 days). Interest charged in respect of overdue trade receivables is immaterial.

Credit risk is minimised as the exposure is spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts on trade receivables of £8 million (2012: £11 million). This allowance has been determined by reference to past default experience, and the movements in the allowance are analysed as follows:

	2013 £m	Group 2012 £m
At 1 January	11	11
Currency translation differences	(1)	(1)
Charged to the income statement	1	2
Amounts written off during the year	(3)	(1)
<b>AT 31 DECEMBER</b>	<b>8</b>	<b>11</b>

Further details regarding credit risk are provided in note 36 on page 110.

## 20. Current Asset Investments

31 December	2013 £m	Group 2012 £m
Listed investments	—	10

The listed investments were all quoted on recognised stock exchanges.

## 21. Derivative Financial Instruments – Assets

Derivative financial instruments within Group current assets comprise:

31 December	2013 £m	Group 2012 £m
Fair value through the income statement:		
Forward foreign currency contracts	3	2

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

## 22. Trade and Other Payables

31 December	2013 £m	Group 2012 £m
<b>Amounts falling due within one year</b>		
Trade payables	135	137
Amounts owed to joint ventures	7	5
Other tax and social security payable	8	7
Other payables	22	18
Accruals and deferred income	40	38
Employee entitlements (excluding pensions)	16	15
	<b>228</b>	<b>220</b>
<b>Amounts falling due after more than one year</b>		
Other payables	11	11
Employee entitlements (excluding pensions)	–	4
	<b>11</b>	<b>15</b>

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

Total trade payables at 31 December 2013 amounted to £135 million (2012: £137 million).

Trade payables comprise amounts outstanding in respect of trade purchases and ongoing costs. The average credit period taken for trade purchases is 68 days (2012: 69 days).

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

31 December	2013 £m	Company 2012 £m
<b>Loans from subsidiary undertakings</b>		
Amounts falling due within one year	175	112

# Notes to Financial Statements continued

## 23. Derivative Financial Instruments – Liabilities

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

31 December	2013 £m	Group 2012 £m
Fair value through the income statement:		
Forward foreign currency contracts	2	1
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	2	6
	4	7
Amounts shown within non-current liabilities	(1)	(3)
Amounts shown within current liabilities	3	4

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

The Company has no derivative financial liabilities (2012: £Nil).

## 24. Borrowings

31 December	2013 £m	Group 2012 £m
Bank overdrafts	11	11
Borrowings repayable within one year	39	16
Due within one year	50	27
Borrowings repayable between one and two years	47	24
Borrowings repayable between two and five years	177	254
Due after more than one year	224	278
	274	305
Bank overdrafts	11	11
Bank borrowings	263	294
	274	305

At 31 December 2013, the Group's borrowings shown above comprised £260 million of secured borrowings (2012: £293 million) and £14 million of unsecured borrowings (2012: £12 million). Of the borrowings at 31 December 2013 described here as secured, £225 million (2012: £290 million) are subject to guarantees issued by Coats and certain of its principal subsidiaries.

The currency and interest rate profile of the Group's borrowings is included in note 36 on page 107.

## 25. Deferred Tax Liabilities

	2013 £m	Group 2012 £m
At 1 January	25	25
Currency translation differences	(1)	(1)
(Credited)/charged to the income statement	(1)	4
Credited to reserves	(1)	(3)
<b>AT 31 DECEMBER</b>	<b>22</b>	<b>25</b>

31 December	2013 Provided £m	2013 Unprovided £m	2012 Provided £m	2012 Unprovided £m
<b>The Group's net deferred tax liabilities/(assets) are analysed as follows:</b>				
Accelerated tax depreciation	16	(2)	17	(2)
Short-term timing differences	(9)	(5)	(10)	(10)
Unrealised investment gains	–	–	3	–
Revenue losses carried forward	(35)	(171)	(43)	(170)
Capital losses carried forward	–	(224)	–	(273)
Unremitted overseas earnings	10	–	11	–
Brands	28	–	32	–
Retirement benefit obligations	4	(19)	6	(43)
	<b>14</b>	<b>(421)</b>	<b>16</b>	<b>(498)</b>

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

Deferred tax assets (note 17)	(8)	(9)
Deferred tax liabilities	22	25
	<b>14</b>	<b>16</b>

At the year end, the Group had approximately £1.9 billion (2012: £1.9 billion) of unused tax losses available for offset against future profits. A deferred tax asset has been recognised in respect of £164 million (2012: £179 million) of such losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

At the period end, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £Nil (2012: £Nil).

# Notes to Financial Statements continued

## 26. Provisions

31 December	2013 £m	Group 2012 £m	2013 £m	Company 2012 £m
Provisions are included as follows:				
Current liabilities	48	46	9	–
Non-current liabilities	16	19	1	1
	<u>64</u>	<u>65</u>	<u>10</u>	<u>1</u>

	Onerous leases £m	Pension liabilities £m	Other provisions £m	Total £m
<b>GROUP</b>				
At 1 January 2013	10	20	35	65
Currency translation differences	–	–	(1)	(1)
Utilised in year	(1)	–	(32)	(33)
Charged to the income statement	–	2	31	33
<b>AT 31 DECEMBER 2013</b>	<b>9</b>	<b>22</b>	<b>33</b>	<b>64</b>

Other provisions largely comprise reorganisation costs, which are expected to be utilised within one year, together with costs which are expected to be substantially utilised within the next ten years, being remediation, study costs and associated legal and consultancy costs in connection with US environmental matters (see note 30) and amounts set aside to cover certain legal and regulatory claims and other obligations arising.

The currency and interest rate profile of onerous leases is included in note 36 on page 107, and the maturity of onerous leases is included in note 36 on page 109.

	Onerous leases £m	Other Provisions £m	Total £m
<b>COMPANY</b>			
At 1 January 2013	1	–	1
Charged to the profit and loss account	–	9	9
At 31 December 2013	<u>1</u>	<u>9</u>	<u>10</u>

Other provisions at the Company level relate to costs expected to be incurred dealing with the UK Pension Regulator's investigations.



## 27. Operating Lease Commitments

31 December	2013 £m	Group 2012 £m	2013 £m	Company 2012 £m
Outstanding commitments under non-cancellable operating leases:				
Payable within one year	12	13	–	–
Payable between one and five years	16	22	1	2
Payable after more than five years	6	9	2	2
	<u>34</u>	<u>44</u>	<u>3</u>	<u>4</u>

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

31 December	2013 £m	2012 £m
Receivable within one year	1	1
Receivable between one and five years	2	4
Receivable after more than five years	2	3
	<u>5</u>	<u>8</u>

Operating leases relate principally to land and buildings and vehicles.

## 28. Share Capital

	31 December 2013		31 December 2012	
Issued and fully paid	Number	£m	Number	£m
Ordinary Shares of 5p each	<u>1,407,152,123</u>	<u>70</u>	<u>1,565,935,990</u>	<u>78</u>

The issued Ordinary Share capital of GPG decreased during the year to 31 December 2013 as follows:

Date of event	Stock event	No. of shares	£m
1 January 2013	Brought forward	1,565,935,990	78
Various dates	Exercises of options	1,717,816	–
Various dates	Share buybacks	(160,501,683)	(8)
<b>31 DECEMBER 2013</b>	<b>Carried forward</b>	<u><b>1,407,152,123</b></u>	<u><b>70</b></u>

In January 2013 23,480,921 Ordinary Shares purchased in December 2012 were cancelled. Between January and March 2013, a further 137,020,762 Ordinary Shares were purchased and cancelled.

# Notes to Financial Statements continued

## 28. Share Capital continued

Options outstanding under the Group's 2002 share option scheme at 31 December 2013 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (p per share)	Exercise period
<b>2002 SHARE OPTION SCHEME</b>				
Ordinary	14,903,708	23.04.04	40.0912	23.04.07 to 23.04.14
Ordinary	1,743,728	27.08.04	39.2832	27.08.07 to 27.08.14
Ordinary	8,369,973	09.03.05	48.2294	09.03.08 to 09.03.15
Ordinary	6,800,570	04.04.05	44.4444	04.04.08 to 04.04.15
Ordinary	13,066,072	24.10.05	51.0967	24.10.08 to 24.10.15
Ordinary	317,040	07.11.05	51.0967	07.11.08 to 07.11.15
Ordinary	39,625	14.12.05	51.0967	14.12.08 to 14.12.15
Ordinary	9,614,248	15.03.06	56.6480	15.03.09 to 15.03.16
Ordinary	317,034	05.05.06	56.7743	05.05.09 to 05.05.16
Ordinary	3,242,505	11.10.06	58.9820	11.10.09 to 11.10.16
Ordinary	12,126,967	09.03.07	56.5534	09.03.10 to 09.03.17
Ordinary	9,282,068	10.04.08	49.9961	10.04.11 to 10.04.18
Ordinary	4,260,535	30.06.09	25.9529	30.06.12 to 30.06.19

Options exercised during the year comprised 1,717,816 under the schemes operated by the Group, and 1,778,079 options lapsed.

## 29. Reserves and Non-Controlling Interests

	Share premium account £m	Translation reserve £m	Unrealised gains reserve £m	Capital reduction reserve £m	Other reserves £m	Retained earnings £m	Non- controlling interests £m
<b>GROUP</b>							
At 1 January 2013	–	89	14	93	112	48	24
Share buybacks	–	–	–	(45)	8	–	–
Dividends	–	–	–	–	–	–	(5)
Share issues	1	–	–	–	–	–	–
Currency translation differences	–	(37)	–	–	–	–	–
(Decreases)/increases in fair value	–	–	(3)	–	1	–	–
Transfers to income statement	–	(30)	(11)	–	3	–	–
Actuarial gains on employee benefits	–	–	–	–	–	107	–
Profit for the year	–	–	–	–	–	23	5
Disposal of subsidiaries	–	–	–	–	–	1	(11)
<b>AT 31 DECEMBER 2013</b>	<b>1</b>	<b>22</b>	<b>–</b>	<b>48</b>	<b>124</b>	<b>179</b>	<b>13</b>

	Share premium account £m	Capital redemption reserve £m	Capital reduction reserve £m	Share options reserve £m	Other reserves £m	Profit and loss account £m
<b>COMPANY</b>						
At 1 January 2013	–	4	93	8	1	77
Share buybacks	–	7	(45)	–	–	–
Share issues	1	–	–	–	–	–
Loss for the year	–	–	–	–	–	(27)
<b>AT 31 DECEMBER 2013</b>	<b>1</b>	<b>11</b>	<b>48</b>	<b>8</b>	<b>1</b>	<b>50</b>

## 30. Contingent Liabilities

Coats' borrowings at the year end include £225 million (2012: £290 million) secured by guarantees issued by Coats and certain of its principal subsidiaries.

The Group has guaranteed the banking facilities of Australian Country Spinners Ltd, on a joint and several basis with the other shareholder. The Group's liability under that guarantee, which is limited to 50% of those facilities, amounts to A\$3 million (2012: A\$3 million).

### Guarantees

GPG has guaranteed certain amounts that may become payable in respect of a former subsidiary in Australia. At 31 December 2013, GPG's liability under these guarantees amounted to A\$1.7 million (2012: A\$1.7 million). At the time of the sale of that former subsidiary, in 2013 GPG was paid A\$1.2 million by the former subsidiary in support of any potential claims against the GPG guarantee. GPG holds that A\$1.2 million in an interest-bearing bank account on trust for the former subsidiary. On expiry of these guarantees any unutilised balance from the A\$1.2 million bank balance, together with any interest received on that account, will be repaid to the former subsidiary. This liability is fully accrued in these financial statements.

### Environmental Contingent Liabilities

As noted in previous reports, the US Environmental Protection Agency ("USEPA") has notified Coats & Clark, Inc. ("CC") that it is a "potentially responsible party" under the US Superfund law for investigation and remediation costs at the Lower Passaic River Study Area ("LPRSA") in New Jersey in respect of an alleged predecessor's former facilities which operated in that area prior to 1950. Approximately 70 companies to date have formed a cooperating parties group ("CPG") to fund and conduct a remedial investigation and feasibility study ("RI/FS") of the area. CC joined the CPG in 2011. The total costs of the RI/FS and related expenditures are currently estimated by the CPG to be approximately \$125 million, and it is expected to be completed in 2015.

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

USEPA has indicated that it expects imminently to issue a Focused Feasibility Study ("FFS") and a Proposed Plan for remediation of the lower 8 miles of the Lower Passaic River before the CPG's RI/FS for the entire 17 mile stretch of the river is completed. At this time, Coats cannot reasonably estimate CC's potential share or a range of future costs because: (a) USEPA has not made a final remedial decision for the FFS; (b) the scope, nature and timing of the remediation is not known; and (c) the total number of parties that will participate in funding future remediation and their respective allocations are not known.

During 2012, the members of the CPG, including CC, agreed to fund the remediation of one part of the LPRSA (River Mile 10.9). CC's interim allocation of the cost of this is estimated at approximately \$0.6 million. The \$0.5 million (2012: \$8.0 million) US environmental charge reported by Coats is primarily connected with this remediation and CC's latest estimated share of study costs and associated legal and consultancy costs.

Coats believes that CC's predecessors did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPRSA, that it has valid legal defences which are based on its own analysis of the relevant facts, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. The foregoing, as well as other mitigating factors, should result in a reduced share of any exposure for future remedial and other costs. At the present time, there can be no assurance as to the scope of future remedial action and other costs, nor can Coats predict what CC's ultimate share will be. Accordingly, no provision has been made for these costs.

### Pensions

As described on page 5 in the Chairman's Statement, the Group is dealing with investigations by tPR into its three UK defined benefit pension schemes. The outcome of these investigations remains uncertain, but may result in changes to the current deficit recovery plans for these schemes.

## 31. Capital Commitments

As at 31 December 2013, the Group had commitments of £1 million in respect of contracts placed for future capital expenditure (2012: £1 million). Its share of the capital commitments reported by joint ventures was £Nil (2012: £Nil). The Company did not have any capital commitments as at 31 December 2013 (2012: £Nil).

# Notes to Financial Statements continued

## 32. Notes to the Consolidated Statement of Cash Flows

### a) Reconciliation of pre-tax profit/(loss) to net cash inflow from operating activities

Year ended 31 December	2013 £m	2012* £m
Profit/(loss) before taxation from continuing operations	14	(93)
Interest and other income – Coats	(3)	(2)
Share of profit of joint ventures	(1)	(1)
Finance costs (net)	31	71
<b>Operating profit/(loss)</b>	<b>41</b>	<b>(25)</b>
Adjustments for:		
Depreciation	29	30
Impairment of intangible assets	1	1
Amortisation of intangible assets	3	4
(Profit)/loss on disposal of property, plant and equipment	(12)	2
Increase in trade and other receivables	(24)	(1)
Decrease in inventories	11	2
Decrease in provisions	(7)	(23)
Increase/(decrease) in trade and other payables	19	(1)
Discontinued operations (including proceeds of sales of Parent Group fixed and current asset investments)	80	150
Currency and other adjustments	8	(5)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>149</b>	<b>134</b>

### b) Taxation paid

Year ended 31 December	2013 £m	2012 £m
Overseas tax paid	(34)	(22)
Discontinued operations	(1)	(2)
	<b>(35)</b>	<b>(24)</b>

### c) Investment income

Year ended 31 December	2013 £m	2012 £m
Interest and other income – Coats	3	2
Discontinued operations	–	4
	<b>3</b>	<b>6</b>

\* Restated to reflect the impact of adoption of IAS19 (revised) "Employee Benefits".

## 32. Notes to the Consolidated Statement of Cash Flows continued

### d) Net capital expenditure and financial investment

Year ended 31 December	2013 £m	2012 £m
Payments to acquire property, plant and equipment	(22)	(21)
Receipts from the disposal of property, plant and equipment	18	1
Purchase of fixed asset investments (operating subsidiaries)	(1)	–
Repayment of capital by investees (operating subsidiaries)	–	2
Intangible assets acquired	(2)	(4)
Discontinued operations	1	(5)
	<u>(6)</u>	<u>(27)</u>

### e) Acquisitions and disposals

Year ended 31 December	2013 £m	2012 £m
Net receipts from sales of businesses (operating subsidiaries)	1	–
Discontinued operations (including proceeds of sales of Parent Group former operating subsidiaries £37 million (2012: £81 million), former associated undertakings £91 million (2012: £77 million) and joint ventures £Nil (2012: £31 million))	128	193
	<u>129</u>	<u>193</u>

### f) Buyback of Ordinary Shares

Year ended 31 December	2013 £m	2012 £m
Share buybacks	(45)	(24)
	<u>(45)</u>	<u>(24)</u>

### g) Net decrease in borrowings

Year ended 31 December	2013 £m	2012 £m
New loans taken out	91	224
Loans repaid	(119)	(347)
Discontinued operations	–	(19)
	<u>(28)</u>	<u>(142)</u>

# Notes to Financial Statements continued

## 33. Discontinued operations

The combined results of discontinued operations were as follows:

Year ended 31 December	Parent Group	Unallocated	2013 £m Total	2012 £m Total
Revenue	9	2	11	108
Cost of sales	(9)	(2)	(11)	(69)
Expenses	–	(6)	(6)	(42)
	–	(6)	(6)	(3)
Other income	31	5	36	93
Finance costs	–	(1)	(1)	(3)
Profit before tax	31	(2)	29	87
Attributable tax	(1)	1	–	(4)
<b>Profit after tax</b>	<b>30</b>	<b>(1)</b>	<b>29</b>	<b>83</b>
Loss arising on measurement to fair value	–	–	–	(17)
Gain on disposal of businesses	–	17	17	29
<b>Gain on discontinued operations</b>	<b>30</b>	<b>16</b>	<b>46</b>	<b>95</b>

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

	2013 £m	2012 £m
Property, plant and equipment (2012: including £16 million secured against borrowings)	–	20
Associated undertakings	–	113
Joint ventures	–	36
Other fixed asset investments	1	76
Deferred tax assets	–	4
Inventories	–	7
Due from joint ventures	–	7
Trade receivables	–	2
Other financial asset receivables	–	4
Other receivables	–	1
Cash and cash equivalents	–	3
<b>Assets held for sale</b>	<b>1</b>	<b>273</b>
Due to associated undertakings	–	(13)
Other financial liability payables	–	(4)
Borrowings	–	(20)
<b>Liabilities directly associated with assets held for sale</b>	<b>–</b>	<b>(37)</b>



## 34. Related Party Transactions

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided on page 47 in the audited part of the Directors' Remuneration report.

Year ended 31 December	2013 £m	2012 £m
Short-term employee benefits	1	1

### Trading transactions

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

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

	Sales of goods		Purchases of goods		Other income	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Joint ventures	4	5	28	24	3	8

Transactions with joint ventures are conducted on an arm's length basis.

Amounts owing by/(to) joint ventures at the year end are disclosed in notes 19, 22 and 33.

## 35. Post Balance Sheet Events

No significant events requiring disclosure have occurred between the balance sheet date and the date on which these financial statements were approved.

## 36. Derivatives and Other Financial Instruments

GPG is a strategic investment holding company and it, together with certain of its subsidiaries, is principally involved in managing a portfolio of cash and investments. The profile of the Group's financial assets, and in particular the relative balance between cash and investments, varies during the year depending on the timing of purchases and, more commonly, sales of investments. The currency profile of the Group's financial assets is similarly affected by the timing of investment transactions, and tends to vary during the year.

However, given the Group has now completed the asset realisation programme, the Parent Group assets are primarily represented by cash. The currency profile of the cash holdings at year end is set out in the Chairman's Statement on page 6.

The Group's main financial instruments comprise:

### FINANCIAL ASSETS:

- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations;
- investments in equity shares with both UK and international exposure. Historically, these investments have been held as either current or non-current asset investments, however, the Parent Group non-current asset investments were all reclassified as assets held for sale with effect from 31 December 2012 and in all material respects have been sold by 31 December 2013; and
- derivatives, including forward foreign currency contracts, cross-currency interest rate swaps, interest rate swaps, contracts for differences, equity swaps and equity options.

### FINANCIAL LIABILITIES:

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

# Notes to Financial Statements continued

## 36. Derivatives and Other Financial Instruments continued

### FINANCIAL ASSETS

The Group's financial assets are summarised below:

31 December	2013 £m	2012 £m
<b>Financial assets carried at amortised cost (loans and receivables):</b>		
Cash and cash equivalents	458	322
Cash and cash equivalents (operations held for sale – note 33)	–	3
Trade receivables (note 19)	162	151
Trade receivables (operations held for sale – note 33)	–	2
Due from joint ventures (note 19)	1	1
Due from joint ventures (operations held for sale – note 33)	–	7
Other receivables (note 19), net of non-financial assets £13 million (2012: £14 million)	24	22
Other receivables (operations held for sale – note 33)	–	4
	<b>645</b>	<b>512</b>
<b>Financial assets carried at fair value through the income statement:</b>		
Current asset investments (note 20)	–	10
Derivative financial instruments (note 21)	3	2
	<b>3</b>	<b>12</b>
<b>Other financial assets carried at fair value through the statement of comprehensive income:</b>		
Non-current asset investments (available-for-sale – note 15b))	2	2
Non-current asset investments (operations held for sale – note 33)	1	76
	<b>3</b>	<b>78</b>
<b>Total financial assets</b>	<b>651</b>	<b>602</b>

### FINANCIAL LIABILITIES

The Group's financial liabilities are summarised below:

31 December	2013 £m	2012 £m
<b>Financial liabilities carried at amortised cost:</b>		
Trade payables (note 22)	135	137
Due to joint ventures (note 22)	7	5
Due to associated undertakings (operations held for sale – note 33)	–	13
Other financial liabilities	78	77
Other financial liabilities (operations held for sale – note 33)	–	4
Provisions (note 26)	9	10
Borrowings (note 24)	274	305
Borrowings (operations held for sale – note 33)	–	20
	<b>503</b>	<b>571</b>
<b>Financial liabilities carried at fair value through the income statement:</b>		
Derivative financial instruments (note 23)	2	1
<b>Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income:</b>		
Derivative financial instruments (note 23)	2	6
<b>Total financial liabilities</b>	<b>507</b>	<b>578</b>

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

## 36. Derivatives and Other Financial Instruments continued

### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

31 December	2013		2012	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Primary financial instruments:</b>				
Cash and cash equivalents	458	458	325	325
Trade receivables	162	162	153	153
Due from joint ventures	1	1	8	8
Other receivables	24	24	26	26
Investments:				
Current	–	–	10	10
Non-current	3	3	78	78
Trade payables	(135)	(135)	(137)	(137)
Due to joint ventures	(7)	(7)	(18)	(18)
Other financial liabilities and provisions	(87)	(87)	(91)	(91)
Borrowings	(274)	(274)	(325)	(325)
<b>Derivative financial instruments:</b>				
Forward foreign currency contracts	1	1	–	–
Other net derivative financial instruments	(2)	(2)	(5)	(5)
<b>Net financial assets</b>	<b>144</b>	<b>144</b>	<b>24</b>	<b>24</b>

Investments were historically held for strategic growth or trading purposes. Market values have been used as proxies for the fair value of all listed investments. Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than twelve months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. The fair values of the equity options, equity swaps and the forward foreign currency contracts have been determined by third party institutions, based on market rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Effective-hedge gains and losses on forward foreign currency contracts used for hedging future transactions are not recognised in the income statement until the exposure to which they relate is itself recognised. Such gains and losses are incorporated in the value of the transaction being hedged.

### FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not observable market data (unobservable inputs).

# Notes to Financial Statements continued

## 36. Derivatives and Other Financial Instruments continued

### FINANCIAL ASSETS MEASURED AT FAIR VALUE

31 December	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>2013</b>				
Financial assets measured at fair value through the income statement:				
Trading derivatives	3	–	3	–
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	3	1	2	–
<b>Total</b>	<b>6</b>	<b>1</b>	<b>5</b>	<b>–</b>
<b>2012</b>				
Financial assets measured at fair value through the income statement:				
Trading securities	10	10	–	–
Trading derivatives	2	–	2	–
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	78	77	1	–
<b>Total</b>	<b>90</b>	<b>87</b>	<b>3</b>	<b>–</b>

## 36. Derivatives and Other Financial Instruments continued

### FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

31 December	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>2013</b>				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(2)	–	(2)	–
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(2)	–	(2)	–
<b>Total</b>	<b>(4)</b>	<b>–</b>	<b>(4)</b>	<b>–</b>
<b>2012</b>				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(1)	–	(1)	–
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(6)	–	(6)	–
<b>Total</b>	<b>(7)</b>	<b>–</b>	<b>(7)</b>	<b>–</b>

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

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

The Group's policies for managing those risks are described on pages 104 to 111 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate.

# Notes to Financial Statements continued

## 36. Derivatives and Other Financial Instruments continued

### CURRENCY RISK

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

The Board recognises that the Group's Sterling statement of financial position will be affected by short term movements in exchange rates, particularly the value of the Australian, New Zealand and United States dollars and the Euro. The Board takes the view that the major currencies in which the Group is invested move within a relatively stable range and that currency fluctuations should even out over the long term. However, the Board recognises the importance of managing currency risk differently in light of the strategy to return value to shareholders. The current Board strategy is to hold cash in currencies to match known Parent Group liabilities. The Parent Group surplus cash is currently held in New Zealand dollars and US dollars as disclosed on page 6.

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

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

### INTEREST RATE RISK

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In 2013, the Group financed its operations through shareholders' funds, bank borrowings and commercial bills. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to bank facilities amounting to some £459 million, of which £274 million had been drawn down at year end. This includes facilities negotiated by certain trading subsidiaries to meet their local needs.

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

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

A reasonably possible change of one per cent in market interest rates would change profit before tax by approximately £3 million (2012: £2 million), and would change shareholders' funds by approximately £5 million (2012: £3 million).

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

### CAPITAL RISK MANAGEMENT

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

The Group's capital structure comprises cash and cash equivalents and borrowings (see Summary of net cash on page 63), and share capital and reserves attributable to the equity shareholders of the Company.

### CURRENCY EXPOSURE

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The table on page 105 shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts and cross-currency interest rate swaps held as hedges, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation. It also excludes investments held in equity shares, which are included in the Currency Profile of Financial Assets table on page 106.



## 36. Derivatives and Other Financial Instruments continued

### Net foreign currency financial assets/(liabilities)

Functional currency 2013	Sterling £m	Australian dollars £m	New Zealand dollars £m	US dollars £m	Other £m	Total £m
Sterling	–	(11)	80	82	(69)	82
Australian dollars	–	–	18	61	–	79
US dollars	(7)	–	–	–	2	(5)
Other currencies	(2)	–	–	(7)	2	(7)
	<u>(9)</u>	<u>(11)</u>	<u>98</u>	<u>136</u>	<u>(65)</u>	<u>149</u>

### Net foreign currency financial assets/(liabilities)

Functional currency 2012	Sterling £m	Australian dollars £m	New Zealand dollars £m	US dollars £m	Other £m	Total £m
Sterling	–	(37)	99	–	(11)	51
US dollars	6	1	–	–	(8)	(1)
Other currencies	–	–	–	(34)	–	(34)
	<u>6</u>	<u>(36)</u>	<u>99</u>	<u>(34)</u>	<u>(19)</u>	<u>16</u>

The following table shows the impact on pre-tax profit and shareholders' funds of reasonably possible changes in exchange rates against each of the major foreign currencies in which the Group transacts:

	US dollars		Australian dollars		New Zealand dollars		Euros	
	2013 £m	2012 £m	2013 £m	2012* £m	2013 £m	2012* £m	2013 £m	2012* £m
Increase in £ Sterling exchange rate:	9%	9%	9%	9%	9%	9%	9%	9%
(Decrease)/increase in profit before tax	(7)	1	1	3	(7)	(8)	6	(1)
(Decrease)/increase in shareholders' funds	(13)	(14)	–	(5)	(7)	(9)	–	1

\*Restated for consistency with the basis adopted in 2013.

# Notes to Financial Statements continued

## 36. Derivatives and Other Financial Instruments continued

### CURRENCY PROFILE OF FINANCIAL ASSETS

The currency profile of the Group's financial assets was as follows:

31 December	2013					2012				
Currency	Investments £m	Cash and cash equivalents £m	Trade and other receivables £m	Derivative financial instruments £m	Total £m	Investments £m	Cash and cash equivalents £m	Trade and other receivables £m	Derivative financial instruments £m	Total £m
Sterling	–	145	6	43	194	–	114	5	19	138
Australian dollars	1	3	1	(1)	4	86	29	18	1	134
New Zealand dollars	–	131	–	–	131	–	103	–	–	103
United States dollars	–	128	70	(88)	110	–	24	63	(55)	32
Euros	1	7	35	29	72	1	5	32	24	62
Other currencies	1	44	75	20	140	1	50	69	13	133
<b>Total financial assets</b>	<b>3</b>	<b>458</b>	<b>187</b>	<b>3</b>	<b>651</b>	<b>88</b>	<b>325</b>	<b>187</b>	<b>2</b>	<b>602</b>

The investments included above comprise listed and unlisted investments in shares.

## 36. Derivatives and Other Financial Instruments continued

### CURRENCY AND INTEREST RATE PROFILE OF FINANCIAL LIABILITIES

The currency and interest rate profile of the Group's financial liabilities was as follows:

31 December	2013					2012				
	Floating rate £m	Fixed rate £m	Interest free £m	Derivative financial instruments £m	Total £m	Floating rate £m	Fixed rate £m	Interest free £m	Derivative financial instruments £m	Total £m
Currency										
Sterling	3	–	18	1	22	3	–	16	–	19
Australian dollars	1	–	1	–	2	20	–	26	–	46
United States dollars	–	172	104	6	282	67	197	96	6	366
Euros	86	–	26	6	118	27	–	27	14	68
Other currencies	15	–	77	(9)	83	14	–	78	(13)	79
<b>Total financial liabilities</b>	<b>105</b>	<b>172</b>	<b>226</b>	<b>4</b>	<b>507</b>	<b>131</b>	<b>197</b>	<b>243</b>	<b>7</b>	<b>578</b>

The benchmark for determining floating rate liabilities in the UK is LIBOR for both Sterling and US dollar loans. In Australia such rates are based on discounted commercial loan rates.

Details of fixed rate and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

31 December	2013			2012		
	Fixed rate financial liabilities			Fixed rate financial liabilities		
	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Financial liabilities on which no interest is paid Weighted average period until maturity (months)	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Financial liabilities on which no interest is paid Weighted average period until maturity (months)
Currency						
Sterling	–	–	23	–	–	26
United States dollars	4.00	19	–	4.20	30	–
<b>Weighted average</b>	<b>4.00</b>	<b>19</b>	<b>23</b>	<b>4.20</b>	<b>30</b>	<b>26</b>

# Notes to Financial Statements continued

## 36. Derivatives and Other Financial Instruments continued

### CURRENCY PROFILE OF FOREIGN EXCHANGE DERIVATIVES

The currency profile of the Group's foreign exchange derivatives (on a gross basis), all of which mature in less than one year, was as follows:

31 December	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
<b>Currency</b>				
Sterling	43	19	(1)	–
Australian dollars	1	1	(1)	–
United States dollars	40	41	(132)	(97)
Euros	54	40	(31)	(29)
Other currencies	40	44	(12)	(18)
	<b>178</b>	<b>145</b>	<b>(177)</b>	<b>(144)</b>

The £1 million net asset (2012: £1 million) in relation to foreign exchange financial instruments in the table above is split £3 million (2012: £2 million) within assets (note 21) and £2 million (2012: £1 million) within liabilities (note 23).

### MARKET PRICE RISK

Until the completion of the orderly value realisation, the Group was affected by market price movements on its equity investments. The Board concluded that it was not economic to hedge market price risk. Investments were continually monitored and managed in the light of new information or market movements.

Equity swaps, equity options and contracts for differences have been purchased from time to time as part of the Group's investment portfolio. These derivatives no longer form part of the portfolio.

The sensitivity analyses below have been determined based on the exposure to reasonably possible price changes for the investments held at the year end.

Equities (excluding pension schemes):

	2013 £m	2012 £m
Impact of a 10% increase in prices:		
Increase in pre-tax profit for the year	–	1
Increase in equity shareholders' funds	–	9

The impact of equivalent decreases in prices on pre-tax profit and equity shareholders' funds would be the reverse of the increases shown above.

## 36. Derivatives and Other Financial Instruments continued

### LIQUIDITY RISK

Following the Board's announcement in February 2011 of the strategy to undertake an orderly value realisation, the Group's liquidity risk has evolved from the necessity to have access to funds to take advantage of attractive investment opportunities arising. Cash proceeds from the orderly realisation of investments are being retained in relatively liquid form awaiting the opportunity to return capital to shareholders. Such return of capital is being executed having regard to the actual and contingent liabilities of the Group and, hence, requires liquidity risk to be effectively managed. In response to this, the Group typically holds cash balances in deposits with a short maturity. Additional resources can be drawn through committed borrowing facilities at operating subsidiary level. During the year the Group has complied with all externally imposed capital requirements.

The Group had the following undrawn committed borrowing facilities, in respect of which all conditions precedent had been met at the year end.

31 December	2013 £m	2012 £m
Expiring between one and two years	–	17
Expiring between two and five years	159	102
	<u>159</u>	<u>119</u>

### MATURITY OF UNDISCOUNTED FINANCIAL ASSETS (EXCLUDING DERIVATIVES)

The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

31 December	2013 £m	2012 £m
In one year or less, or on demand	636	584
In more than one year but not more than two years	8	10
In more than two years but not more than five years	2	4
In more than five years	2	2
	<u>648</u>	<u>600</u>

### MATURITY OF UNDISCOUNTED FINANCIAL LIABILITIES (EXCLUDING DERIVATIVES)

The maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

31 December	2013 £m	2012 £m
In one year or less, or on demand	276	254
In more than one year but not more than two years	50	65
In more than two years but not more than five years	181	259
In more than five years	1	1
	<u>508</u>	<u>579</u>

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

# Notes to Financial Statements continued

## 36. Derivatives and Other Financial Instruments continued

### MATURITY OF UNDISCOUNTED FINANCIAL DERIVATIVES

The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows was as follows:

		Assets		Liabilities
31 December	2013 £m	2012 £m	2013 £m	2012 £m
In one year or less, or on demand	179	145	(178)	(147)
In more than one year but not more than two years	1	–	(2)	(2)
In more than two years but not more than five years	–	–	–	(2)
	<u>180</u>	<u>145</u>	<u>(180)</u>	<u>(151)</u>

### CREDIT RISK

31 December	2013 £m	2012 £m
-------------	------------	------------

The Group considers its maximum exposure to credit risk to be as follows:

Cash and cash equivalents	458	325
Derivative financial instruments	3	2
Trade receivables (net of bad debt provision)	162	153
Due from joint ventures	1	8
Other receivables	24	26
	<u>648</u>	<u>514</u>

Financial assets considered not to have exposure to credit risk:

Current asset investments	–	10
Non-current asset investments	3	78
Total financial assets	<u>651</u>	<u>602</u>

### Analysis of trade receivables over permitted credit period:

Trade receivables up to 1 month over permitted credit period	17	18
Trade receivables between 1 and 2 months over permitted credit period	5	5
Trade receivables between 2 and 3 months over permitted credit period	1	2
Trade receivables between 3 and 6 months over permitted credit period	2	2
Trade receivables in excess of 6 months over permitted credit period	–	–
Total gross trade receivables in excess of permitted credit period	<u>25</u>	<u>27</u>
Trade receivables within permitted credit period	<u>137</u>	<u>126</u>
Total net trade receivables	<u>162</u>	<u>153</u>

Analysis of trade receivables impairment provision:

Trade receivables between 3 and 6 months over permitted credit period	–	1
Trade receivables in excess of 6 months over permitted credit period	8	10
Total impairment provision	<u>8</u>	<u>11</u>

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual, or more frequent if appropriate, review of their credit limits and credit periods.

The Group does not have a significant credit risk exposure to any single customer.

## 36. Derivatives and Other Financial Instruments continued

### HEDGES

During 2013, the Group hedged the following exposures:

- interest rate risk – using interest rate swaps
- currency risk – using forward foreign currency contracts and cross-currency interest rate swaps.

At 31 December 2013, the fair value of such hedging instruments was a net liability of £2 million (2012: £6 million).

Cash flow hedges outstanding at 31 December 2013 are expected to impact the income statement in the following periods:

	2013 £m Loss	2012 £m Loss
Within one year	(1)	(3)
Within one to two years	(1)	(2)
Within two to five years	–	(1)
	<u>(2)</u>	<u>(6)</u>

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

### GAINS/(LOSSES) ON FINANCIAL ASSETS/LIABILITIES

The net (loss)/gain from buying and selling financial assets and financial liabilities included in the income statement is analysed as follows:

Year ended 31 December	2013 £m	2012 £m
Gains on disposal of investments (excluding derivatives)	12	75
Net investment impairment provision	(20)	(3)
	<u>(8)</u>	<u>72</u>



# Notes to Financial Statements continued

## 37. Share-based Payments

GPG's share option schemes provide for a grant price equal to the average quoted market price of GPG shares for 1 to 5 days prior to the date of the grant. The vesting period is 3 years, and any options that remain unexercised after 10 years from the date of grant automatically lapse. Option forfeiture where an employee leaves the Group can occur in certain circumstances.

Only options granted after 7 November 2002 are required to be analysed in this note.

	2013		2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	87,579,968	47.53p	91,385,045	46.81p
Lapsed during the year	(1,778,079)	29.32p	(2,059,603)	52.37p
Impact of rebasing due to capital return*	–		(1,407,226)	0.72p
Exercised during the year	(1,717,816)	22.57p	(338,248)	24.88p
Outstanding at end of year	<u>84,084,073</u>	<u>48.43p</u>	<u>87,579,968</u>	<u>47.53p</u>
Exercisable at end of year	<u>84,084,073</u>	<u>48.43p</u>	<u>87,579,968</u>	<u>47.53p</u>

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 2.2 years (2012: 3.0 years).

The charge to the income statement in respect of GPG share options is calculated using a stochastic valuation model based on the methodology underlying the Black-Scholes model, projecting forward the Company share price and calculating the value earned when the options are assumed to be exercised and discounting this back to the calculation date.

The assumptions in the model are as follows:

Volatility	20% per annum
Risk free interest rate	2.6% per annum
Dividend at grant	1p per share

The Directors have set the volatility assumption after analysing the historical volatility of the Group share price and taking account of the current levels of equity market volatility. To allow for the effects of early exercise it was assumed that in each simulation the options were exercised as soon as they were "in the money" and these values were averaged to get the overall price.

The Group recognised total expenses of £Nil related to equity-settled share-based payments in the year ended 31 December 2013 (2012: £23,000).

\*During 2012 the number and respective exercise price of each outstanding grant of options was adjusted to take account of the 2011 capital return.

# Coats Financial Information

## Consolidated Income Statement (unaudited)

Year ended 31 December

Year ended 31 December		2013			2012*		
	Notes	Before exceptional items Unaudited US\$m	Exceptional items Unaudited US\$m	Total Unaudited US\$m	Before exceptional items Unaudited US\$m	Exceptional items Unaudited US\$m	Total Unaudited US\$m
<b>Continuing operations</b>							
<b>Revenue</b>		1,703.7	–	1,703.7	1,653.4	–	1,653.4
Cost of sales		(1,079.5)	(30.4)	(1,109.9)	(1,065.0)	(132.5)	(1,197.5)
<b>Gross profit</b>		624.2	(30.4)	593.8	588.4	(132.5)	455.9
Distribution costs		(285.7)	–	(285.7)	(280.3)	–	(280.3)
Administrative expenses		(205.8)	1.8	(204.0)	(187.5)	2.6	(184.9)
Other operating income/(expense)		–	20.1	20.1	–	(1.8)	(1.8)
<b>Operating profit/(loss)</b>		132.7	(8.5)	124.2	120.6	(131.7)	(11.1)
Share of profits of joint ventures		0.7	–	0.7	1.1	–	1.1
Investment income		4.9	–	4.9	2.6	–	2.6
Finance costs	4	(41.7)	–	(41.7)	(48.1)	(35.8)	(83.9)
<b>Profit/(loss) before taxation</b>	3	96.6	(8.5)	88.1	76.2	(167.5)	(91.3)
Taxation	5	(51.4)	0.4	(51.0)	(48.8)	3.9	(44.9)
<b>Profit/(loss) from continuing operations</b>		45.2	(8.1)	37.1	27.4	(163.6)	(136.2)
<b>Discontinued operations</b>							
Loss from discontinued operations		(0.1)	–	(0.1)	(2.7)	–	(2.7)
<b>Profit/(loss) for the year</b>		45.1	(8.1)	37.0	24.7	(163.6)	(138.9)
<b>Attributable to:</b>							
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>							
		37.3	(8.1)	29.2	17.2	(163.6)	(146.4)
Non-controlling interests		7.8	–	7.8	7.5	–	7.5
		45.1	(8.1)	37.0	24.7	(163.6)	(138.9)

\*Restated to reflect the impact of the adoption of IAS 19 (revised) "Employee Benefits" (see note 1 to Coats Financial Information).

# Coats Financial Information

## Consolidated Statement of Comprehensive Income (unaudited)

Year ended 31 December	2013 Unaudited US\$m	2012* Unaudited US\$m
<b>Profit/(loss) for the year</b>	<b>37.0</b>	(138.9)
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
– Actuarial gains/(losses) in respect of retirement benefit schemes	<b>130.8</b>	(0.8)
– Tax relating to components of other comprehensive income	<b>1.4</b>	(2.1)
	<b>132.2</b>	(2.9)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Cash flow hedges:		
– Gains/(losses) arising during the year	<b>0.8</b>	(4.7)
– Transferred to profit or loss on cash flow hedges	<b>4.8</b>	5.7
Exchange differences on translation of foreign operations	<b>(20.5)</b>	(7.4)
	<b>(14.9)</b>	(6.4)
<b>Other comprehensive income and expense for the year</b>	<b>117.3</b>	(9.3)
<b>Total comprehensive income and expense for the year</b>	<b>154.3</b>	(148.2)
<b>Attributable to:</b>		
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>	<b>147.0</b>	(155.8)
Non-controlling interests	<b>7.3</b>	7.6
	<b>154.3</b>	(148.2)

\*Restated to reflect the impact of the adoption of IAS 19 (revised) "Employee Benefits" (see note 1 to Coats Financial Information).

# Coats Financial Information

## Consolidated Statement of Financial Position (unaudited)

At 31 December

	Notes	2013 Unaudited US\$m	2012 Unaudited US\$m
<b>Non-current assets</b>			
Intangible assets		257.2	260.1
Property, plant and equipment		340.6	366.9
Investments in joint ventures		13.7	13.4
Available-for-sale investments		3.5	3.1
Deferred tax assets		13.6	15.1
Pension surpluses		44.6	34.6
Trade and other receivables		20.7	15.1
		<b>693.9</b>	<b>708.3</b>
<b>Current assets</b>			
Inventories		281.0	310.8
Trade and other receivables		342.4	309.3
Available-for-sale investments		0.6	0.2
Cash and cash equivalents	7	124.9	128.4
		<b>748.9</b>	<b>748.7</b>
Non-current assets classified as held for sale		–	3.0
<b>Total assets</b>		<b>1,442.8</b>	<b>1,460.0</b>
<b>Current liabilities</b>			
Trade and other payables		(366.8)	(347.4)
Current income tax liabilities		(17.4)	(14.6)
Bank overdrafts and other borrowings		(82.4)	(43.9)
Provisions		(59.0)	(71.1)
		<b>(525.6)</b>	<b>(477.0)</b>
<b>Net current assets</b>		<b>223.3</b>	<b>271.7</b>
<b>Non-current liabilities</b>			
Trade and other payables		(19.1)	(22.6)
Deferred tax liabilities		(36.8)	(40.6)
Borrowings		(371.7)	(452.1)
Retirement benefit obligations:			
Funded schemes		(105.6)	(245.6)
Unfunded schemes		(112.4)	(99.4)
Provisions		(23.8)	(24.9)
		<b>(669.4)</b>	<b>(885.2)</b>
<b>Total liabilities</b>		<b>(1,195.0)</b>	<b>(1,362.2)</b>
<b>Net assets</b>		<b>247.8</b>	<b>97.8</b>
<b>Equity</b>			
Share capital		20.5	20.5
Share premium account		412.1	412.1
Hedging and translation reserves		(39.9)	(25.5)
Retained loss		(166.5)	(329.2)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>226.2</b>	<b>77.9</b>
Non-controlling interests		21.6	19.9
<b>Total equity</b>		<b>247.8</b>	<b>97.8</b>

# Coats Financial Information

## Consolidated Statement of Changes in Equity (unaudited)

Year ended 31 December

	Share capital Unaudited US\$m	Share premium account Unaudited US\$m	Hedging reserve Unaudited US\$m	Translation reserve Unaudited US\$m	Retained loss* Unaudited US\$m	Equity shareholders' funds Unaudited US\$m	Non-controlling interests Unaudited US\$m	Total equity Unaudited US\$m
Balance as at 1 January 2012	20.5	412.1	(10.1)	(8.9)	(179.9)	233.7	17.9	251.6
(Loss)/profit for the year	–	–	–	–	(146.4)	(146.4)	7.5	(138.9)
Other comprehensive income and expense for the year	–	–	1.0	(7.5)	(2.9)	(9.4)	0.1	(9.3)
Total comprehensive income and expense for the year	–	–	1.0	(7.5)	(149.3)	(155.8)	7.6	(148.2)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(5.6)	(5.6)
Balance as at 31 December 2012	20.5	412.1	(9.1)	(16.4)	(329.2)	77.9	19.9	97.8
Profit for the year	–	–	–	–	29.2	29.2	7.8	37.0
Other comprehensive income and expense for the year	–	–	5.6	(20.0)	132.2	117.8	(0.5)	117.3
Total comprehensive income and expense for the year	–	–	5.6	(20.0)	161.4	147.0	7.3	154.3
Disposal of a non-controlling interest	–	–	–	–	1.3	1.3	0.7	2.0
Dividends paid to non-controlling interests	–	–	–	–	–	–	(6.3)	(6.3)
<b>Balance as at 31 December 2013</b>	<b>20.5</b>	<b>412.1</b>	<b>(3.5)</b>	<b>(36.4)</b>	<b>(166.5)</b>	<b>226.2</b>	<b>21.6</b>	<b>247.8</b>

\*Restated to reflect the impact of the adoption of IAS 19 (revised) "Employee Benefits" (see note 1 to Coats Financial Information).

# Coats Financial Information

## Consolidated Statement of Cash Flows (unaudited)

Year ended 31 December

	Notes	2013 Unaudited US\$m	2012 Unaudited US\$m
<b>Cash inflow/(outflow) from operating activities</b>			
Net cash inflow generated by operations	6	139.6	8.3
Interest paid		(26.2)	(63.1)
Taxation paid		(53.3)	(35.3)
<b>Net cash generated by/(absorbed in) operating activities</b>		<b>60.1</b>	<b>(90.1)</b>
<b>Cash inflow/(outflow) from investing activities</b>			
Dividends received from joint ventures		0.5	0.9
Acquisition of property, plant and equipment and intangible assets		(37.8)	(38.8)
Disposal of property, plant and equipment and intangible assets		28.3	1.7
Acquisition of financial investments		(1.1)	(0.5)
Disposal of financial investments		–	0.3
Disposal of businesses		1.5	2.1
Acquisition of investments in joint ventures		(0.4)	–
<b>Net cash absorbed in investing activities</b>		<b>(9.0)</b>	<b>(34.3)</b>
<b>Cash (outflow)/inflow from financing activities</b>			
Dividends paid to non-controlling interests		(6.3)	(5.6)
(Decrease)/increase in debt and lease financing		(43.3)	151.9
<b>Net cash (absorbed in)/generated by financing activities</b>		<b>(49.6)</b>	<b>146.3</b>
<b>Net increase in cash and cash equivalents</b>		<b>1.5</b>	<b>21.9</b>
Net cash and cash equivalents at beginning of the year		110.4	85.6
Foreign exchange (losses)/gains on cash and cash equivalents		(5.1)	2.9
<b>Net cash and cash equivalents at end of the year</b>	7	<b>106.8</b>	<b>110.4</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net increase in cash and cash equivalents		1.5	21.9
Cash outflow/(inflow) from change in debt and lease financing		43.3	(151.9)
Change in net debt resulting from cash flows (Free cash flow)		44.8	(130.0)
Other non-cash movements		(2.3)	(2.3)
Foreign exchange (losses)/gains		(4.1)	3.1
Decrease/(increase) in net debt		38.4	(129.2)
Net debt at start of year		(367.6)	(238.4)
<b>Net debt at end of year</b>	7	<b>(329.2)</b>	<b>(367.6)</b>

# Coats Financial Information

## Notes to Coats Financial Information

### 1. Basis of preparation

The financial information contained in this section of the report represents the unaudited results of Coats as contained within the audited consolidated financial statements of GPG for the years ended 31 December 2013 and 31 December 2012, as adjusted for the impact of the adoption of amendments to IAS 1 and IAS 19 (revised).

It incorporates the consolidated results of Coats Group Limited ("CGL") as adjusted to account for the Coats capital incentive plan ("CIP"), on a basis consistent with that required to be adopted by GPG; and for inclusion in the balance sheet both at 31 December 2013 and 31 December 2012 of \$6.0 million of intangible assets held at the GPG level but which are associated with its acquisition of Coats.

The CIP is operated by GPG for the benefit of certain senior CGL employees. In accordance with IFRS, this is accounted for by CGL as an equity-settled compensation plan as CGL has no obligation to settle the share-based payment. Under IFRS, equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant and this fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase recognised in equity as a contribution from the parent. GPG accounts for this arrangement as a cash-settled share-based compensation plan and, in accordance with IFRS, is required to reassess the fair value of the CIP at each reporting date.

As previously reported, the Board of GPG determined in 2013 that an amendment should be made to the CIP scheme to provide for an appropriate retention mechanism to reward Coats' senior management for their role in the future development of that business over the next two to three years. That amendment, which provides for a benefit pool equivalent to between 1% and 1.5% of GPG's equity, was formally agreed by the GPG Board on 22 August 2013 and has been reflected in the results for the year ended 31 December 2013.

CGL is incorporated in the British Virgin Islands. It does not prepare consolidated statutory accounts and therefore the financial information contained in this section of the report does not constitute full financial statements and has not been, and will not be, audited, other than in so far as it is contained within the audited financial statements of its ultimate parent company, GPG.

The financial information for the year ended 31 December 2013 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") endorsed by the European Union. During the period, CGL adopted the amendments to IAS 1 "Presentation of items in Other Comprehensive Income" and IAS 19 (revised) "Employee Benefits". The accounting policies adopted have been consistently applied to the financial information presented for the year ended 31 December 2012 and, as the Group has applied IAS 1 and IAS 19 (revised) retrospectively, comparative amounts for this period have been restated.

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those items that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income in the Consolidated Statement of Comprehensive Income have been restated to reflect the change. The amendments affected presentation only and had no impact on the Group's financial position or performance.

IAS 19 (revised) has impacted the accounting for the Group's defined benefit schemes by replacing the interest cost and expected return on plan assets with a net interest amount on net defined benefit assets and liabilities. In addition, pension scheme administrative expenses including the PPF (Pension Protection Fund) levy and actuary, audit, legal and trustee charges are recognised as administrative expenses. There have been no changes to the Group's total defined benefit obligations recognised in the Consolidated Statement of Financial Position or to the net cash inflow generated by operations recognised in the Consolidated Statement of Cash Flows. The impact of the adoption of IAS 19 (revised) is set out in Note 2 to the Coats Financial Information.

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

		2013	2012
Average	Sterling	0.64	0.63
	Euro	0.75	0.78
	Brazilian Real	2.16	1.95
	Indian Rupee	58.55	53.80
Year end	Sterling	0.60	0.62
	Euro	0.73	0.76
	Brazilian Real	2.36	2.05
	Indian Rupee	61.80	55.00



## 2. Impact of adoption of IAS 19 (revised) "Employee Benefits"

The impact of the adoption of IAS 19 (revised) is set out below:

	2012 Full Year		
	As previously reported Unaudited US\$m	Adjustment Unaudited US\$m	As restated Unaudited US\$m
<b>Consolidated Income Statement*</b>			
Administrative expenses	(181.1)	(6.4)	<b>(187.5)</b>
Operating profit	127.0	(6.4)	<b>120.6</b>
Finance costs	(19.4)	(28.7)	<b>(48.1)</b>
Profit before taxation	111.3	(35.1)	<b>76.2</b>
Taxation	(50.5)	1.7	<b>(48.8)</b>
Profit from continuing operations	60.8	(33.4)	<b>27.4</b>
Net profit attributable to equity shareholders	50.6	(33.4)	<b>17.2</b>
<b>Consolidated Income Statement</b>			
Administrative expenses	(178.5)	(6.4)	<b>(184.9)</b>
Operating loss	(4.7)	(6.4)	<b>(11.1)</b>
Finance costs	(55.2)	(28.7)	<b>(83.9)</b>
Loss before taxation	(56.2)	(35.1)	<b>(91.3)</b>
Taxation	(46.6)	1.7	<b>(44.9)</b>
Loss from continuing operations	(102.8)	(33.4)	<b>(136.2)</b>
Net loss attributable to equity shareholders	(113.0)	(33.4)	<b>(146.4)</b>
<b>Consolidated Statement of Comprehensive Income</b>			
Loss for the year	(105.5)	(33.4)	<b>(138.9)</b>
Actuarial losses in respect of retirement benefit schemes	(35.9)	35.1	<b>(0.8)</b>
Taxation	(0.4)	(1.7)	<b>(2.1)</b>
Total comprehensive income and expense	(148.2)	–	<b>(148.2)</b>
<b>Consolidated Statement of Cash Flows</b>			
Operating loss	(4.7)	(6.4)	<b>(11.1)</b>
Provision movements	(16.3)	6.4	<b>(9.9)</b>
Net cash inflow generated by operations	8.3	–	<b>8.3</b>

The adoption of IAS 19 (revised) has resulted in an increase in administrative expenses of \$7.0 million, an increase in finance costs of \$37.0 million and a decrease in the deferred tax charge of \$1.5 million for the year ended 31 December 2013 in the Consolidated Income Statement compared to what would have been recognised prior to the adoption of IAS 19 (revised).

\*Before exceptional items (see note 3 to Coats Financial Information).

# Coats Financial Information

## Notes to Coats Financial Information continued

### 3. Profit/(loss) before taxation is stated after charging/(crediting)

	2013 Unaudited US\$m	2012 Unaudited US\$m
<b>Exceptional items:</b>		
<i>Cost of sales:</i>		
European Commission fine and associated exchange losses	–	84.6
US antitrust settlement costs	7.2	–
Reorganisation costs and impairment of property, plant and equipment and intangible assets	22.7	39.9
US environmental costs	0.5	8.0
	<b>30.4</b>	132.5
<i>Administrative expenses:</i>		
Capital incentive plan charge/(credit)	0.4	(2.6)
Transition costs of Coats to a standalone listed entity	4.8	–
UK pension increase exchange offer	(7.0)	–
	<b>(1.8)</b>	(2.6)
<i>Other operating (income)/costs:</i>		
(Profit)/loss on disposal of property	(20.1)	1.8
	<b>8.5</b>	131.7
<i>Finance costs:</i>		
European Commission fine interest cost	–	35.8
Total	<b>8.5</b>	167.5

For further details regarding the US environmental costs referred to above see note 30 to the GPG financial statements.

### 4. Finance costs

	2013 Unaudited US\$m	2012* Unaudited US\$m
<b>Non-exceptional items</b>		
Interest on bank and other borrowings	24.3	25.0
Net interest on pension scheme assets and liabilities	12.3	13.8
Other	5.1	9.3
	<b>41.7</b>	48.1
<b>Exceptional items</b>		
European Commission fine interest cost	–	35.8
Total	<b>41.7</b>	83.9

\*Restated to reflect the impact of the adoption of IAS 19 (revised) "Employee Benefits" (see note 1 to Coats Financial Information).

## 5. Taxation

	2013 Unaudited		2012* Unaudited	
	US\$m	US\$m	US\$m	US\$m
UK taxation based on profit for the year:				
Corporation tax at 23.25% (2012: 24.5%)		3.5		3.7
Double taxation relief		(3.5)		(3.7)
Total UK taxation		—		—
Overseas taxation:				
Current taxation		53.4		47.4
Deferred taxation		(0.7)		(2.2)
		52.7		45.2
Prior year adjustments:				
Current taxation	(1.8)		(0.7)	
Deferred taxation	0.1		0.4	
		(1.7)		(0.3)
		51.0		44.9

## 6. Reconciliation of operating profit/(loss) to net cash inflow generated by operations

	2013 Unaudited US\$m	2012* Unaudited US\$m
Operating profit/(loss)	124.2	(11.1)
Depreciation	44.4	47.1
Amortisation of intangible assets (computer software)	4.5	5.7
Reorganisation costs and impairment (see note 3)	22.7	39.9
Exceptional (profit)/loss on sale of property (see note 3)	(20.1)	1.8
Other operating exceptional items (see note 3)	5.9	90.0
Pre-exceptional operating profit before depreciation and amortisation (EBITDA)	181.6	173.4
Decrease in inventories	16.7	2.9
Increase in debtors	(32.9)	(5.3)
Increase in creditors	26.4	9.4
Provision movements	(12.3)	(9.9)
Other non-cash movements	5.6	1.3
Net cash inflow from normal operating activities	185.1	171.8
Net cash outflow in respect of reorganisation costs	(28.2)	(21.4)
Net cash outflow in respect of other operating exceptional items	(17.3)	(142.1)
Net cash inflow generated by operations	139.6	8.3

\*Restated to reflect the impact of the adoption of IAS 19 (revised) "Employee Benefits" (see note 1 to Coats Financial Information).

# Coats Financial Information

## Notes to Coats Financial Information continued

### 7. Net debt

	2013 Unaudited US\$m	2012 Unaudited US\$m
Cash and cash equivalents	124.9	128.4
Bank overdrafts	(18.1)	(18.0)
Net cash and cash equivalents	106.8	110.4
Other borrowings	(436.0)	(478.0)
Total net debt	(329.2)	(367.6)

## Supplementary Information

### Supplementary information required by the Australian Securities Exchange listing rules for the year ended 31 December 2013 (unaudited)

a) The top 20 registered holdings of the issued Ordinary Shares of 5p each ("Ordinary Shares")\* at 28 February 2014 were as follows:

Registered Holder	Holding	% Issued shares
HSBC NOMINEES (NZ) LTD	167,882,193	11.93
J P MORGAN CLEARING CORP	123,906,443	8.81
NATIONAL NOMINEES NZ LTD	105,909,327	7.53
THE BANK OF NEW YORK (NOMINEES) LIMITED	81,765,373	5.81
BNP PARIBAS NOMINEES (NZ) LTD	66,831,988	4.75
HSBC NOMS (NZ) LTD STATE STREET <NZCSD>**	61,394,939	4.36
ACCIDENT COMPENSATION CORPORATION	50,950,459	3.62
JPMORGAN CHASE BANK NA NZ BRANCH <NZCSD>	44,769,563	3.18
THE BANK OF NEW YORK (NOMINEES) LIMITED	31,588,237	2.24
CITICORP NOMINEES PTY LTD	24,418,322	1.74
RBC INVESTOR SERVICES AUSTRALIA NOMINEES	23,140,000	1.64
NATIONAL NOMINEES LTD	21,971,812	1.56
SIR RON BRIERLEY	21,882,765	1.56
HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	19,196,417	1.36
CITIBANK NOMINEES (NZ) LTD <NZCSD>	18,778,235	1.33
NZ SUPERANNUATION FUND NOMS LTD	18,383,862	1.31
MR B A NIXON	17,811,406	1.27
CHASE NOMINEES LIMITED	17,328,763	1.23
BNP PARIBAS NOMINEES (NZ) LTD <NZCSD>	12,500,000	0.89
JP MORGAN NOMINEES AUSTRALIA LTD	12,151,703	0.86

b) The spread of holdings in the issued Ordinary Shares at 28 February 2014 was as follows:

Range	No. Holders	%	No. of shares	%
1 to 1,000	3,704	17.62	1,052,201	0.07
1,001 to 5,000	6,476	30.81	17,589,886	1.25
5,001 to 10,000	3,586	17.06	25,872,420	1.84
10,001 to 100,000	6,653	31.65	186,333,845	13.24
Over 100,001	602	2.86	1,176,303,771	83.59
	<b>21,021</b>	<b>100.00</b>	<b>1,407,152,123</b>	<b>100.00</b>

The number of holders holding less than a marketable parcel of GPG Ordinary Shares as at 28 February 2014 was 3,294.

GPG is incorporated in England and Wales, and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares. The UK Takeover Code, which applies to GPG, limits acquisition of an interest in 30% or more of the Ordinary Shares in GPG.

\*In Australia, this includes CHESS Depository Interests.

\*\*NZCSD means New Zealand Central Securities Depository.

# Company and Registrars' Addresses

## UNITED KINGDOM

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78 Pall Mall, London SW1Y 5ES  
Tel: 020 7663 3992 Facsimile: 020 3367 1084  
[www.gpgplc.com](http://www.gpgplc.com)

## AUSTRALIA

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c/o BDO East Coast Partnership  
Level 10, 1 Margaret Street, Sydney NSW 2000  
Tel: 02 9251 4100 Facsimile: 02 9240 9821

## NEW ZEALAND

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c/o Computershare Investor Services Limited  
Private Bag 92119, Auckland 1142  
Tel: 09 488 8700 Facsimile: 09 488 8787

**Incorporated and registered in England No. 103548**

**Registered office: 78 Pall Mall, London SW1Y 5ES**

## LOCATION OF SHARE REGISTERS

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The Company's register of members is maintained in the UK with branch registers in Australia and New Zealand. Register enquiries may be addressed direct to the Company's share registrars named below:

Registrar	Telephone and postal enquiries	Inspection of Register
<b>UK Main Register:</b> Computershare Investor Services PLC	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ Tel: 0870 707 1022 Facsimile: 0870 703 6143	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
<b>Australian Branch Register:</b> Computershare Investor Services Pty Limited	GPO Box 3329, Melbourne VIC 3001 Freephone: 1 800 501 366 (within Australia) Tel: 03 9415 4083 Facsimile: 03 9473 2500	Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067
<b>New Zealand Branch Register:</b> Computershare Investor Services Limited	Private Bag 92119, Auckland 1142 Tel: 09 488 8777 Facsimile: 09 488 8787	Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622

## MANAGING YOUR SHAREHOLDING ONLINE

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### UK Registered Members

To manage your shareholding online, please visit:

[www.investorcentre.co.uk](http://www.investorcentre.co.uk)

### Australia and New Zealand Registered Members

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:

[www.investorcentre.com/NZ](http://www.investorcentre.com/NZ)

General enquiries can be directed to:

[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Please assist our registrar by quoting your CSN or shareholder number.





