Guinness Peat Group plc

The following unaudited consolidated results of Coats Group Limited (“the Group”) for the six months ended 30 June 2009 are released by Guinness Peat Group plc ("GPG") for information only.

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Guinness Peat Group plc

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Coats Group Limited: unaudited results* for the six months ended 30 June 2009

Financial summary	**2009 Half year Unaudited US$m**	2008 Half year Unaudited US$m
Revenue	**663.4**	867.4
Operating profit before reorganisation, impairment and other exceptional items (see note 2)	**39.2**	67.5
Operating profit	**18.4**	43.5
Profit before taxation	**9.8**	27.8
Net (loss)/profit attributable to equity shareholders	**(8.7)**	4.4
Net cash inflow from operations before reorganisation costs and other exceptional items (see note 6)	**71.2**	3.1
Net debt**	**333.9**	434.8

**see note 1*

***net debt is after the payment of European Commission fines cumulatively totalling $65.6 million (2008 - $37.2 million)*

- Industrial thread pre-exceptional operating margin at 8%.
- Improved performance from the crafts business: a pre-exceptional operating profit of $6.1 million (2008 - $1.6 million loss) was achieved.
- Europe crafts pre-exceptional operating losses fell by $6.9 million.
- Excellent progress to date on restructuring of Europe crafts: on schedule to be substantially complete by end 2009, with final completion in 2010.
- North American crafts sales have shown resilience to the recession and profits for the Americas are up on 2008.
- Significant reductions in distribution and administration costs – 25% down on 2008.
- Headcount of 21,228 is down by 853 or 4% since the year end, including a 7% reduction in employees in high cost countries.
- Good operating cash flow performance, with a $6.3 million inflow from lower net working capital, compared to a $94.1 million outflow in 2008. This includes a $26.4 million cash flow benefit (2008 - $18.4 million outflow) from the reduction in stock, as inventory has been aligned to lower trading levels.
- Net debt at end June 2009 of $333.9 million was $100.9 million lower than at June 2008. The Group has sufficient banking facilities and has fully met covenants during the period, while still improving the operational performance of the business through $30.7 million of investment in capex and reorganisation projects.

Chairman's statement

Overview

2009 has seen the worst global recession in decades but, in the face of the downturn in global demand plus destocking in the supply chain, Coats has shown much resilience. Coats' strong operational and financial position coming into the downturn has enabled it to withstand these recessionary pressures and to react quickly, with significant reductions in stock and net debt being made.

Coats' sales in these unprecedented economic conditions were 24% down on 2008 levels, including an adverse impact from exchange rate movements (15% down on a like-for-like basis). However, Coats made good progress in terms of both profitability improvement in its crafts business, which is showing resilience in these difficult economic times, and cash generation. Sales in the industrial thread business were down by $153.6 million or 27% on 2008 levels but, notwithstanding this, pre-exceptional profits of $33.1 million were generated and a margin of 8% achieved.

Operating results

Coats industrial sales are largely driven by demand for clothing and footwear. Continuing the trend seen since the fourth quarter of 2008, the severe global downturn, together with destocking in the supply chain, continued to impact the apparel and footwear sectors, and sales were 27% down on 2008 levels (20% down on a like-for-like basis). Asia is a key region for Coats and sales shortfalls there were restricted to 14% on a like-for-like basis. Plants have operated at below normal utilisation, due to both lower demand and actions implemented to reduce stock levels, and this put pressure on margins. However, prices have been maintained and benefits from cost initiatives have come through during the half. A pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) of $33.1 million (2008 - $69.1 million) was generated.

A pre-exceptional operating profit of $6.1 million (2008 - $1.6 million loss) was delivered by the crafts business.

In Europe, where the consumer environment remains fragile overall, crafts sales were 29% down on 2008 levels and 13% down on a like-for-like basis. However, operating losses have been reduced by $6.9 million to $13.6 million, as the benefits from the major restructuring of this business, focussed on lowering the cost base, enhancing productivity and delivering a harmonised pan-European product offer, are being generated. Gross margins have improved and distribution and administration costs have reduced, including benefits from lower freight and advertising and marketing spend. The Europe crafts headcount has reduced by a further 7% since the start of the year.

Profits from the crafts businesses in the Americas and Asia increased from $18.9 million in 2008 to $19.7 million, reflecting a strong performance from the North American crafts business.

Overall, a pre-exceptional operating profit of $39.2 million (2008 - $67.5 million) was generated by the Group.

Further details are included in the Operating Review.

Results

The shortfall to last year at the pre-exceptional operating profit level has been partly offset by $3.2 million lower net exceptional charges, with higher property profits and foreign exchange gains more than offsetting higher reorganisation costs (see note 2), and lower finance and tax charges.

Finance costs fell to $9.3 million (2008 - $16.9 million) primarily due to lower borrowing costs. Coats refinanced in June 2008 and now has a main borrowing facility of $585.0 million. In addition, lower net debt has contributed to the lower borrowing costs.

The tax charge was $15.8 million (2008 - $19.5 million) on pre-tax profit of $9.8 million (2008 - $27.8 million). Excluding exceptional items and their associated tax effect, the effective tax rate was 54% for 2009 compared to 43% in the previous half, reflecting a weighting of profits to high tax rate countries. We continue to believe that the Group's tax rate will reduce as profitability in Europe improves.

As a result of these lower net exceptional charges, finance costs and tax, the net loss attributable to equity shareholders in the half was restricted to $8.7 million, $13.1 million down on 2008.

Investment

Investment continued to be made in the period to support the business through the global downturn and to improve its operational performance. Investment in new plant and systems amounted to $11.7 million (2008 - $24.1 million). This capital expenditure was focussed on productivity improvements and SAP installations in Asia. This level of investment will continue in the second half.

Reorganisation spend was $19.0 million (2008 - $23.0 million), predominantly in respect of the major restructuring of the European crafts business: the formerly country-based organisation, each with its own product range, is being transformed into a more cost effective pan-European business, with a single, harmonised product offer, improved supply chains, and reduced distribution and administration costs. Product ranges have been rationalised, manufacturing and distribution centres have been closed and headcount reduction projects have been implemented. This restructuring will be substantially complete by the end of 2009, with final completion in 2010.

Cash flow and balance sheet

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was $69.0 million (2008 - $103.5 million).

The net operating cash flow before reorganisation costs was strong at $71.2 million (2008 - $3.1 million). Operating cash flow included the benefit of a $6.3 million reduction (2008 - $94.1 million increase) in net working capital. This reflects a $26.4 million reduction (2008 - $18.4 million increase) in stock, as inventory has been actively aligned to lower trading levels.

Net debt at June 2009 reduced to $333.9 million (2008 - $434.8 million) after the impact of payment since 2006 of European Commission fines cumulatively totalling $65.6 million (2008 - $37.2 million). In the second half of 2008, equity shareholders' funds had fallen from $525.0 million at June 2008 to $405.9 million at December 2008, due primarily to exchange and actuarial losses. However, equity shareholders' funds increased during the first half of 2009 to $426.1 million, due principally to exchange gains. Net gearing at June 2009 accordingly fell to 76% (2008 – 80%).

The Group's key funded defined benefit pension arrangements are in the UK and USA and the market value of their investments held up during the period.

European Commission Investigation

There have been no developments in the European Commission investigation since the year end. As stated in previous reports, Coats remains of the view that any anticipated eventual payment of the remaining fine is adequately covered by existing provisions.

Prospects

Difficult market conditions will continue throughout 2009. However, there are some signs that the worst sales declines are behind us.

Industrial thread demand is expected to continue to decline during the second half of 2009, but at a diminishing rate. Cost initiatives will continue in the second half and purchasing benefits will be leveraged off the investment in SAP.

In crafts, further profitability improvement is expected in the second half. The European crafts market is expected to remain weak overall, but there are signs of some recovery at consumer level in the key markets of Germany and the UK. Benefits will continue to flow through from the restructuring initiatives, which are continuing, including a reduction in the cost base. Coats' crafts businesses in the Americas and Asia are also expected to contribute to the second half profit improvement.

Reorganisation costs in 2009 are expected to be broadly in line with 2008, as costs and headcount continue to be taken out of the business.

Gary Weiss

Chairman

28 August 2009

Operating review

Industrial Trading Performance

INDUSTRIAL	2009 reported $m	*2008 like-for-like $m	2008 reported $m	Like-for-like decrease %	Actual decrease %
Sales					
Asia and Rest of World	218.1	253.8	269.3	-14%	-19%
Europe	89.1	125.0	145.1	-29%	-39%
Americas	114.2	145.8	160.6	-22%	-29%
Total sales	**421.4**	**524.6**	**575.0**	**-20%**	**-27%**
Pre-exceptional operating profit**	**33.1**	**62.9**	**69.1**	**-47%**	**-52%**

**2008 like-for-like restates 2008 figures at 2009 exchange rates*

***Pre reorganisation, impairment, and other exceptional items (see note 2)*

In the following comments, all comparisons with 2008 are on a like-for-like basis

The Asian industrial performance reflects the downturn in the Asian apparel and footwear export sectors. Coats' relationships established with global suppliers and brand owners continue to support the business.

The European industrial market has been severely impacted by the global downturn, with the customer base shrinking as businesses close. Eastern Europe sales were also impacted by customer migration, as cost pressures increased in that region.

Sales in both North America and, to a lesser extent, South America, have been adversely impacted by the economic downturn. Additional sales from new product lines have been generated, providing some small offset to the sales declines in the apparel and footwear sectors.

Crafts Trading Performance

CRAFTS	**2009 reported $m**	***2008 like-for-like $m**	**2008 reported $m**	**Like-for-like increase / (decrease) %**	**Actual increase / (decrease) %**
Sales					
Asia and Rest of World	27.9	27.3	32.4	+2%	-14%
Europe	82.9	95.3	116.4	-13%	-29%
Americas	131.2	131.8	143.6	-	-9%
Total sales	**242.0**	**254.4**	**292.4**	**-5%**	**-17%**
Pre-exceptional operating profit/(loss)**	**6.1**	**0.4**	**-1.6**	**1,425%**	**481%**

**2008 like-for-like restates 2008 figures at 2009 exchange rates and adjusts for business disposals*

***Pre reorganisation, impairment, and other exceptional items (see note 2)*

In the following comments, all comparisons with 2008 are on a like-for-like basis

There has been further decline in the already weak European retail market for crafts products, and sales overall were down 13% from last year on a like-for-like basis, following a 10% decrease reported in the first half of 2008. There has been some slowdown in the decline in the demand for handknittings, the key product category, but demand for embroidery and crochet products in Southern Europe in particular continues to deteriorate. However, notwithstanding the weak consumer environment, there has been an improvement in profitability through the major restructuring of this business.

North America crafts sales have shown some resilience to the recession, as consumers look for cost effective leisure pursuits. South America crafts sales overall have been impacted by recessionary pressures, but strong growth in handknittings continues. Profits for the Americas were up on 2008 levels.

Consolidated income statement (unaudited)

For the six months ended 30 June 2009	Notes	**2009 Half year Unaudited US$m**	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Continuing operations				
Revenue		**663.4**	867.4	1,645.4
Cost of sales		**(445.4)**	(553.4)	(1,087.6)
Gross profit		**218.0**	314.0	557.8
Distribution costs		**(126.2)**	(169.8)	(310.7)
Administrative expenses		**(74.9)**	(98.2)	(190.2)
Other operating income/(expense)		**1.5**	(2.5)	1.9
Operating profit	2	**18.4**	43.5	58.8
Share of profits of joint ventures		**0.3**	0.8	1.5
Investment income		**0.4**	0.4	2.2
Finance costs	3	**(9.3)**	(16.9)	(24.2)
Profit before taxation		**9.8**	27.8	38.3
Taxation	4	**(15.8)**	(19.5)	(37.8)
(Loss)/profit from continuing operations		**(6.0)**	8.3	0.5
Discontinued operations				
Profit/(loss) from discontinued operations		**0.2**	(0.9)	(4.5)
(Loss)/profit for the period		**(5.8)**	7.4	(4.0)
Attributable to:				
EQUITY SHAREHOLDERS OF THE COMPANY		**(8.7)**	4.4	(8.3)
Minority interests		**2.9**	3.0	4.3
		(5.8)	7.4	(4.0)

Consolidated balance sheet (unaudited)

At 30 June 2009	Notes	**2009 30 June Unaudited US$m**	2008 30 June Unaudited US$m	2008 31 December Unaudited US$m
Non-current assets				
Intangible assets		**264.8**	269.7	266.7
Property, plant and equipment		**450.8**	514.8	460.9
Investments in joint ventures		**15.4**	16.2	15.9
Available-for-sale investments		**2.9**	3.9	2.9
Deferred tax assets		**13.6**	13.3	13.4
Pension surpluses		**41.3**	64.9	41.7
Trade and other receivables		**24.0**	30.1	23.7
		812.8	912.9	825.2
Current assets				
Inventories		**276.7**	374.7	296.6
Trade and other receivables		**241.1**	379.9	256.5
Available-for-sale investments		**0.3**	0.3	0.2
Cash and cash equivalents	7	**69.5**	70.0	86.6
		587.6	824.9	639.9
Non-current assets classified as held for sale		**0.1**	5.2	1.4
Total assets		**1,400.5**	1,743.0	1,466.5
Current liabilities				
Amounts owed to parent undertaking		**-**	-	(12.8)
Trade and other payables		**(273.6)**	(339.2)	(312.9)
Current income tax liabilities		**(6.6)**	(10.1)	(9.1)
Bank overdrafts and other borrowings		**(109.1)**	(80.4)	(109.7)
Provisions		**(107.2)**	(175.1)	(110.3)
		(496.5)	(604.8)	(554.8)
Net current assets		**91.1**	220.1	85.1
Non-current liabilities				
Trade and other payables		**(21.4)**	(19.4)	(26.8)
Deferred tax liabilities		**(26.9)**	(18.8)	(23.7)
Borrowings		**(294.3)**	(424.4)	(322.9)
Retirement benefit obligations:				
Funded schemes		**(4.7)**	(1.6)	(4.8)
Unfunded schemes		**(95.4)**	(107.0)	(92.3)
Provisions		**(21.4)**	(22.7)	(18.1)
		(464.1)	(593.9)	(488.6)
Liabilities directly associated with non-current assets classified as held for sale		**-**	-	(0.5)
Total liabilities		**(960.6)**	(1,198.7)	(1,043.9)
Net assets		**439.9**	544.3	422.6
Equity				
Share capital		**20.5**	4.2	4.2
Share premium account		**412.1**	412.1	412.1
Hedging and translation reserve		**(7.4)**	55.6	(26.1)
Retained profit		**0.9**	53.1	15.7
EQUITY SHAREHOLDERS' FUNDS	5	**426.1**	525.0	405.9
Minority interests	5	**13.8**	19.3	16.7
Total equity	5	**439.9**	544.3	422.6

Consolidated cash flow statement (unaudited)

For the six months ended 30 June 2009	Notes	**2009 Half year Unaudited US$m**	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Cash inflow/(outflow) from operating activities				
Net cash inflow/(outflow) generated by operations	6	**52.2**	(19.9)	107.7
Interest paid		**(12.0)**	(24.5)	(43.2)
Taxation paid		**(13.2)**	(24.2)	(39.2)
Net cash generated/(absorbed) from operating activities		**27.0**	(68.6)	25.3
Cash inflow/(outflow) from investing activities				
Dividends received from associates and joint ventures		**1.8**	0.7	0.7
Acquisition of property, plant and equipment and intangible assets		**(11.7)**	(24.1)	(53.6)
Disposal of property, plant and equipment and intangible assets		**3.0**	1.8	14.4
Acquisition of financial investments		**(0.2)**	(0.1)	(0.2)
Disposal of financial investments		**0.1**	0.3	0.1
Acquisition and disposal of businesses		**(1.4)**	(0.5)	(0.5)
Net cash absorbed from investing activities		**(8.4)**	(21.9)	(39.1)
Cash inflow/(outflow) from financing activities				
Dividends paid to minority interests		**(1.9)**	(2.1)	(4.9)
Amounts paid to parent undertaking		**-**	(55.0)	(38.6)
(Decrease)/increase in debt and lease financing		**(28.6)**	131.5	68.8
Net cash (absorbed)/generated in financing activities		**(30.5)**	74.4	25.3
Net (decrease)/increase in cash and cash equivalents		**(11.9)**	(16.1)	11.5
Net cash and cash equivalents at beginning of the period		**65.4**	68.2	68.2
Foreign exchange losses on cash and cash equivalents		**(0.3)**	(5.3)	(14.3)
Net cash and cash equivalents at end of the period	7	**53.2**	46.8	65.4

Reconciliation of net cash flow to movement in net debt				
Net (decrease)/increase in cash and cash equivalents		**(11.9)**	(16.1)	11.5
Cash outflow/(inflow) from change in debt and lease financing		**28.6**	(131.5)	(68.8)
Change in net debt resulting from cash flows		**16.7**	(147.6)	(57.3)
Other		**(1.5)**	(2.3)	(3.8)
Foreign exchange		**(3.1)**	(4.0)	(4.0)
Decrease/(increase) in net debt		**12.1**	(153.9)	(65.1)
Net debt at start of period		**(346.0)**	(280.9)	(280.9)
Net debt at end of period	7	**(333.9)**	(434.8)	(346.0)

Consolidated statement of recognised income and expense (unaudited)

For the six months ended 30 June 2009	Notes	**2009 Half year Unaudited US$m**	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Gains/(losses) on cash flow hedges		**1.8**	(0.6)	(14.0)
Exchange differences on translation of foreign operations		**14.1**	11.6	(59.0)
Actuarial losses in respect of retirement benefit schemes		**(8.7)**	(8.4)	(35.1)
Acquisition of part of a non-controlling interest		**1.9**	-	-
Tax on items taken directly to equity		**0.7**	-	2.0
Net income/(expense) recognised directly in equity		**9.8**	2.6	(106.1)
(Loss)/profit for the period		**(5.8)**	7.4	(4.0)
Transferred to profit or loss on cash flow hedges		**2.7**	0.2	1.4
Total recognised income and expense for the period	5	**6.7**	10.2	(108.7)
Attributable to:				
EQUITY SHAREHOLDERS OF THE COMPANY		**3.9**	7.2	(111.9)
Minority interests		**2.8**	3.0	3.2
		6.7	10.2	(108.7)

Notes

1 Basis of preparation

Coats Group Limited is incorporated in the British Virgin Islands. It does not prepare consolidated statutory accounts and therefore the financial information contained in this announcement does not constitute full financial statements and has not been, and will not be, audited.

The financial information for the six months ended 30 June 2009 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") endorsed by the European Union, and the accounting policies adopted have been consistently applied to the financial information presented for the six months ended 30 June 2008 and the full year ended 31 December 2008.

Coats Group Limited follows the accounting policies of its ultimate parent company, Guinness Peat Group plc.

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

		June 2009	June 2008	December 2008
Average	Sterling	**0.67**	0.51	0.54
	Euro	**0.75**	0.65	0.68
Period end	Sterling	**0.61**	0.50	0.68
	Euro	**0.71**	0.63	0.72

2 Operating profit is stated after charging/(crediting):

	2009 Half year Unaudited US$m	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Exceptional items:			
Reorganisation costs and impairment of property, plant and equipment	**21.8**	16.4	49.0
(Profit)/loss on the sale of property	**(0.9)**	2.5	(3.3)
Loss on disposal of business	**-**	-	2.5
Foreign exchange (gains)/losses	**(0.1)**	5.1	(4.2)
Total	**20.8**	24.0	44.0

3 Finance costs

	2009 Half year Unaudited US$m	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Interest on bank and other borrowings	**15.0**	22.9	38.2
Net return on pension scheme assets and liabilities	**(7.1)**	(10.4)	(19.6)
Other	**1.4**	4.4	5.6
Total	**9.3**	16.9	24.2

4 Taxation

The taxation charges for the six months ended 30 June 2009 and 30 June 2008 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

5 Reconciliation of closing equity

	Equity shareholders' funds Unaudited US$m	**Minority interests Unaudited US$m**	**Total equity Unaudited US$m**
At 1 January 2009	**405.9**	**16.7**	**422.6**
Issue of share capital	**16.3**	**-**	**16.3**
Total recognised income and expense for the period	**3.9**	**2.8**	**6.7**
Dividends paid	**-**	**(1.9)**	**(1.9)**
Other	**-**	**(3.8)**	**(3.8)**
At 30 June 2009	**426.1**	**13.8**	**439.9**

6 Reconciliation of operating profit to net cash inflow/(outflow) generated by operations

	2009 Half year Unaudited US$m	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Operating profit	**18.4**	43.5	58.8
Depreciation	**25.9**	31.3	58.1
Amortisation of intangible assets (computer software)	**3.9**	4.7	9.0
Reorganisation costs (see note 2)	**21.8**	16.4	49.0
Other exceptional items (see note 2)	**(1.0)**	7.6	(5.0)
Decrease/(increase) in inventories	**26.4**	(18.4)	17.1
Decrease/(increase) in debtors	**19.9**	(33.9)	61.2
Decrease in creditors	**(40.0)**	(41.8)	(36.4)
Provision movements	**(4.1)**	(6.1)	(55.9)
Other non-cash movements	**-**	(0.2)	2.5
Net cash inflow from normal operating activities	**71.2**	3.1	158.4
Net cash outflow in respect of reorganisation costs	**(19.0)**	(23.0)	(50.7)
Net cash inflow/(outflow) generated by operations	**52.2**	(19.9)	107.7

7 Net debt

	2009 Half year Unaudited US$m	2008 Half year Unaudited US$m	2008 Full year Unaudited US$m
Cash and cash equivalents	**69.5**	70.0	86.6
Bank overdrafts	**(16.3)**	(23.2)	(21.2)
Net cash and cash equivalents	**53.2**	46.8	65.4
Other borrowings	**(387.1)**	(481.6)	(411.4)
Total	**(333.9)**	(434.8)	(346.0)

8 Balance sheet consolidated by Guinness Peat Group plc (unaudited)

The balance sheet consolidated by Guinness Peat Group plc (GPG) as at 30 June 2009 differs from that disclosed as follows:

	Coats Group Limited Unaudited US$m	**Coats Group Limited US$:GBP at 0.6072 Unaudited £m**	**GPG fair value adjustments Unaudited £m**	**Included in GPG's consolidated balance sheet Unaudited £m**
Intangible assets	264.8	160	14	174
Other non-current assets	548.0	333	-	333
Current assets	587.6	356	-	356
Non-current assets classified as held for sale	0.1	-	-	-
Total assets	1,400.5	849	14	863
Current liabilities	(496.5)	(301)	-	(301)
Non-current liabilities	(464.1)	(282)	-	(282)
Minority interests	(13.8)	(8)	-	(8)
Equity shareholders' funds	426.1	258	14	272