

GUINNESS PEAT GROUP plc  
(‘GPG’ or the ‘Company’)

2013 HALF YEAR FINANCIAL REPORT

**Chairman’s Statement for Half Year Financial Report**

The six months to 30 June 2013 has been a period of mixed events for GPG. Further progress has been made towards completion of GPG’s investment portfolio realisation programme, Coats has traded positively and a new Chairman, Mike Clasper, has been selected to lead that business through the next phase of its development.

However, the launch by the UK Pensions Regulator (‘tPR’) of investigations into GPG’s three UK defined benefit pension schemes has introduced an element of uncertainty into the timetable for the transition from an investment group into one focussed on the global industrial thread and consumer textile crafts markets and the capital return process.

During the current year the business model has continued to be rationalised and this is reflected in the simplified balance sheet at the period end date, more on this later. As detailed in the appendix to this statement, divestments from the investment portfolio between 1 January and 30 June 2013 totalled £172 million (NZ\$338 million) with a further £4 million (NZ\$8 million) realised since the period end. During 2013 we have fully exited our positions in CIC Australia, AV Jennings, Tandou, PrimeAg, Capral and Ridley and have seen a partial return of our investment in Tower.

In March 2013 the Company completed its £70 million share buy-back programme. As previously reported, further capital returns have been deferred for the present time and this is addressed in the section dealing with pensions later in the report. The Board is very conscious of the need to manage costs during this interruption in the capital return process. Actions taken and planned include:

- reductions in Board fees to be implemented from 1 October in recognition of the simplification of the group, notwithstanding the need to address the pensions regulatory investigations;
- closure of GPG’s last Australian office by November 2013 and its principal London office at year end;
- permanent headcount reductions from 15 at December 2012 to 12 in August 2013 and 8 by December 2013; and
- implementation of regular Board meetings by conference call to reduce travel and associated costs.

## REPORTED FINANCIAL RESULTS

Shareholders' funds increased in the period by £38 million (NZ\$74 million) to £472 million (NZ\$927 million) and the net asset backing per share increased from 27.7p (NZ\$54.4¢) to 33.5p (NZ\$65.8¢):

### Movements in shareholders' funds

	6 months ended 30 June 2013		6 months ended * 30 June 2012		Year ended * 31 December 2012	
	£m	£m	£m	£m	£m	£m
Opening equity shareholders' funds		434		602		602
Shareholders' returns						
- Share buy-backs		(45)		-		(25)
Profit/(loss) for the period		28		(49)		(29)
Movements in unrealised gains reserve						
- Net gains realised in the period (recycled through the Income Statement)	(12)		(29)		(39)	
- Net unrealised movements on AFS investments	(3)		(17)		(14)	
- Deferred tax movement	1		2		3	
		(14)		(44)		(50)
IAS19 adjustments						
- GPG schemes	18		2		(12)	
- Coats	63		15		(2)	
		81		17		(14)
Foreign currency revaluations						
- Parent Group (losses)/gains arising in the period	(7)		2		(7)	
- Gains recycled to the Income Statement	(7)		(20)		(39)	
- Coats losses	(2)		(5)		(4)	
		(16)		(23)		(50)
Hedging gains		4		-		-
Closing equity shareholders' funds £ million		472		503		434
Closing equity shareholders' funds NZ\$ million		927		988		853
Net asset backing per share		33.5p		31.0p		27.7p
Net asset backing per share		NZ65.8¢		NZ60.9¢		NZ54.4¢

\* Restated to reflect the impact of IAS19 (revised) "Employee Benefits" (see note 1 on page 25)

The primary components of the movement in shareholders' funds in the period were the improved IAS19 funding position (£81 million) partially offset by the share buy-backs (£45 million). The overall result represents a 21% increase in the net asset backing per share.

## Consolidated Income Statement:

The key elements of GPG's result for the period are presented in a non-statutory format below:

	6 months ended 30 June 2013 £m	6 months ended 30 June 2012 £m	*,**	Year ended 31 December 2012 £m	*
<i>Continuing activity</i>					
Coats					
- Attributable profit before exceptionals	7	7		13	
- EC fine and related interest	-	(76)		(76)	
- Other exceptional items	(3)	(9)		(27)	
	<u>4</u>	<u>(78)</u>		<u>(90)</u>	
Parent Group					
- Overheads	(15)	(13)		(23)	
- Foreign exchange gains/(losses)	1	(4)		(2)	
- Other income	-	-		1	
- Net interest income/(expense)	1	(7)		(12)	
	<u>(13)</u>	<u>(24)</u>		<u>(36)</u>	
Net loss from continuing activity	<u>(9)</u>	<u>(102)</u>		<u>(126)</u>	
<i>Discontinued activities</i>					
Coats					
	-	(1)		(2)	
Parent Group subsidiary and associated undertakings and joint ventures					
	17	24		62	
Investment activity					
- Gains realised in the period (recycled from the unrealised gains reserve)	12	29		39	
- Dividend income	5	3		6	
- Impairments	(1)	(2)		(3)	
	<u>16</u>	<u>30</u>		<u>42</u>	
Other income	6	2		-	
Parent Group tax charge	(2)	(2)		(5)	
Net profit from discontinued activities	<u>37</u>	<u>53</u>		<u>97</u>	
Net profit/(loss) for the period attributable to GPG shareholders £ million	<u>28</u>	<u>(49)</u>		<u>(29)</u>	
Total NZ\$ million	<u>55</u>	<u>(96)</u>		<u>(57)</u>	

\* Restated to reflect the impact of IAS19 (revised) "Employee Benefits" (see note 1 on page 25)

\*\*Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations

## Simplified balance sheet

Set out below is a simplified balance sheet for GPG as at 30 June 2013.

	30 June 2013		31 December 2012	
	£m	£m	£m	£m
Net held for sale assets	74		222	
Current asset investments	-		9	
Total investments (excluding Coats)		74		231
Cash		347		243
GPG assets, excluding Coats		421		474
GPG Pension Schemes		(58)		(74)
Other sundry Parent Group net liabilities		(12)		(14)
		351		386
Coats				
- Other net assets	523		481	
- Net debt	(254)		(226)	
- Employee benefit obligations	(148)		(207)	
		121		48
<b>Shareholders' funds £ million</b>		472		434
<b>Shareholders' funds NZ\$ million</b>		927		853
NAV per share (p)		33.5p		27.7p
NAV per share (NZ\$)		NZ65.8¢		NZ54.4¢

The reduction in net assets excluding Coats from £386 million to £351 million is mainly a consequence of share buy-backs (£45 million) and overhead expenditure partially offset by reduced pension deficits.

### OVERVIEW OF GPG'S NET ASSET VALUE COMPONENTS

The constituent parts of the GPG simplified balance sheet are addressed below.

#### Investment portfolio (excluding Coats)

The current investment portfolio of £74 million compares to a starting valuation on 1 January 2011 of £677 million and on 1 January 2013 of £231 million. Net cash proceeds from investment activities to 30 June 2013 total £630 million or 93% of the initial valuation.

In all material respects GPG's only remaining investment other than Coats is Tower. Following the sale of Tower's health insurance and investments businesses, Tower completed a capital return of NZ\$119 million in April 2013. Further to these transactions, in August 2013 Tower announced the completion of the sale of the bulk of its life insurance business and the arrangements which had been agreed with the Reserve Bank of New Zealand relating to its licensing conditions and in particular its minimum solvency capital requirements. The Tower board is now considering its capital management strategy while also exploring disposal options for the balance of its life business.

GPG's investment in Tower is recorded at 30 June 2013 at its then market price of NZ\$1.95 per share (total value to GPG £69 million). Subsequent to the period end, and following the announcements referred to above, the share price has reduced and was NZ\$1.72 on 23 August 2013. GPG remains fully supportive of Tower's Board and management as they complete the significant restructuring process embarked upon last year. Furthermore, GPG considers the on-going Tower business has an intrinsic value in excess of the current share price. GPG's strategic holding in the company will continue to be managed in this context.

## Cash

At 30 June 2013 the GPG Parent Group had cash of £347 million (NZ\$682 million) (31 December 2012 (£243 million) (NZ\$477 million)). A breakdown of this balance by currency is included later under Capital Management.

## 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 improved from the position at 31 December 2012. This improvement was driven by increased nominal corporate bond yields, which reduce liabilities, and good asset performance.

The relative period end positions are set out in the table below:

	30 June 2013	31 December 2012
IAS19 deficit	£m	£m
Coats UK Pension Plan	100	161
Other Coats net employee benefit obligations	48	46
Total Coats net employee obligations	148	207
Brunel	29	38
Staveley	29	36
Total £ million	206	281
<i>Total NZ\$ million</i>	<i>405</i>	<i>552</i>

### *The UK Pension Regulator's investigations*

As noted above and previously advised to the market, tPR has launched investigations into each of GPG's three UK defined benefit pension schemes. tPR is exploring whether there is scope to impose a Financial Support Direction ('FSD') or Contribution Notice on GPG or one or more of the entities connected or associated with the UK Pension Schemes' respective sponsoring employers under the provisions of the UK Pensions Act 2004 (the 'Act').

An FSD requires a company to put in place financial support for a pension scheme acceptable to tPR. tPR may only impose an FSD if certain technical tests including demonstrating that the sponsoring employer of the scheme is "insufficiently resourced" are met and then only to the extent such action is reasonable, as defined in the Act. There is very little precedent indicating what reasonableness means in the FSD context. A Contribution Notice is an obligation for a person or one or more of the entities connected or associated with the UK Pension Schemes' respective sponsoring employers to make a payment into a pension scheme. A Contribution Notice can only be imposed in cases where an act or deliberate omission has been effected that has caused, in broad terms, material detriment to the likelihood of members receiving their accrued benefits in full from the pension scheme.

GPG has been working with the relevant parties, including tPR. Certain companies within the Group have received requests for information from tPR relating to each of the three UK Pension Schemes and have been asked to perform calculations of their resources pertinent to the technical tests associated with FSDs. tPR has a statutory process which it needs to follow and it is required by the Act to consider all relevant factors. In parallel with dealing with tPR's requirements, the Board and executive management are working with advisors to undertake a detailed review of matters potentially relevant to each UK Pension Scheme.

Discussions regarding the Coats UK Pension Plan 2012 triennial valuation have progressed well during the period and an in principle agreement with the trustee has been reached. This agreement, which remains subject to bank approval and submission to tPR, has been structured to provide Coats with the flexibility it needs to invest in the business to support its strategic plans while maintaining the Company's covenant from the trustee's perspective, and would see the doubling of annual contributions in respect of past service to £14 million as previously outlined to the market. More details on the terms of the triennial valuation will be announced once they have been approved by all relevant parties.

In parallel with the pensions review, the Board is working with advisors to develop its views on the most appropriate capital structure for the Group. The Board has determined that while these plans are developed and there is uncertainty as to the outcome of tPR's investigations, there will be no further returns of capital.

## COATS

Coats' trading performance has shown good progress in the period and from a shareholder perspective, GPG has encouraged management to explore areas of further profit enhancement which would impact favourably on future core profitability. This has manifested itself into a series of projects aimed at both business growth and cost reduction.

Coats' sales increased year-on-year by 2% to US\$840 million (£544 million) and by 4% at constant currencies. Sales growth was achieved in both the Industrial and the Crafts Divisions at this rate and this builds on the performance improvement experienced in the second half of 2012. Operating profit before exceptional items of £41 million (US\$64 million) compares favourably to the equivalent figure of £36 million (US\$57 million) in the comparable period in 2012.

The overall result for the six months to June 2013 before taking account of exceptional items was an attributable profit of £7 million (US\$11 million). The attributable profit before exceptional items, restated for the amendments to IAS19 "Employee Benefits", was £6 million (US\$9 million) for the first half of 2012 and £11 million (US\$17 million) for 2012 as a whole.

Total exceptional items after tax, including gains on the sale of surplus property, amounted to a net charge of £3 million (US\$4 million) in the period ended 30 June 2013 (period ended 30 June 2012: net charge of £86 million (US\$135 million), year ended 31 December 2012: net charge of £103 million (US\$164 million)).

Profit attributable to GPG for the six month period was £4 million (US\$7 million) (6 months to 30 June 2012: loss of £80 million (US\$126 million)).

The intra year cyclical nature of Coats' business is such that operating cash flow during the first half is generally negative. After taking account of temporary funding provided by GPG at June 2012, the year-on-year performance is relatively stable. Net debt at the period end was £254 million (US\$387 million) (31 December 2012: £226 million (US\$368 million)) and based on the definitions contained within the Coats banking agreement, the business was comfortably inside its financial covenants.

The carrying value of Coats in GPG's consolidated balance sheet has increased during the period from £48 million (US\$78 million) to £121 million (US\$185 million) principally due to the improved IAS19 valuation of employee benefits, as described earlier in this report.

A full review of Coats' performance and financial position is included later.

## OVERHEAD COSTS

The Parent Group overheads for the prior periods have been restated to reflect the impact of amendments to IAS19 on the accounting for the Brunel and Staveley pension schemes.

The expenses for the period ended 30 June 2013 include significant advisory costs in respect of both the execution of the strategy to realise value and return capital to shareholders and tPR's investigation of the group's UK Pension Schemes. Staff costs in the period, including incentive schemes and redundancies, total £6 million (six months to 30 June 2012: £7 million, year ended 31 December 2012: £12 million).

## CAPITAL MANAGEMENT

The management of foreign currency risk remains a key focus. The table below summarises the position at 31 December 2012, 30 June 2013 and 23 August 2013:

	23 August 2013	30 June 2013	31 December 2012
	£m	£m	£m
GBP	148	116	114
AUD	12	51	26
NZD	93	128	103
USD	91	52	-
Total £ million	344	347	243

The Parent Group's cash balances have been rebalanced during the year following the share buybacks on the London Stock Exchange and the receipt of investment proceeds primarily in AUD and NZD. The GBP and AUD balances mainly reflect expected commitments in those currencies. As noted in the May 2013 Interim Management Statement a portion of the potentially surplus cash has been converted into USD with the remainder held in NZD. It is the Board's current plan to retain this currency position for the foreseeable future.

## BOARD CHANGES AND STRUCTURE

On 6 March 2013 Waldemar Szlezak was appointed a Non-Executive Director of the Company. The Board currently comprises six Non-Executive Directors, of whom three are considered independent.

As noted earlier in the report, Board fees have been reviewed. This review was completed with the assistance of an external consultant and fees will be reduced with effect from 1 October 2013. Waldemar Szlezak does not receive a fee from the Company.

Rob Campbell, Chairman  
28 August 2013

*Note: All NZ\$ comparatives to £ amounts are for illustrative purposes only, based on the NZ\$:GBP exchange rate on 30 June 2013, NZ\$1.9648 : £1.00.*

## APPENDIX

Net proceeds from portfolio disinvestments from 1 January 2011 to 23 August 2013

	£ million	NZ\$ million
2011 Disposals	144	283
2012 Disposals	314	617
2013 Disposals		
CIC Australia	35	69
Ridley (including £4 million post 30 June 2013)	38	75
Capral	27	53
PrimeAg	26	51
Tower	22	43
Tandou	10	20
AV Jennings	6	11
	164	322
Disposals less than £5 million and dividend receipts	12	24
	176	346
Total generated in the period		
Grand Total	634	1,246



Coats Group Limited: Unaudited results <sup>1</sup>  
for the six months ended 30 June 2013

Financial summary

	2013 Half year			2012 Half year (restated) <sup>1</sup>		
	Before	Exceptional	Total	Before	Exceptional	Total
	Exceptional	items <sup>2</sup>		Exceptional	items <sup>2</sup>	
	items	Unaudited	Unaudited	items	Unaudited	Unaudited
Unaudited	US\$m	US\$m	Unaudited	US\$m	US\$m	
Revenue	839.7		839.7	819.3		819.3
Operating profit/(loss)	63.6	(4.2)	59.4	56.8	(101.1)	(44.3)
Profit/(loss) before taxation	43.1	(4.2)	38.9	36.6	(136.9)	(100.3)
Net profit/(loss) attributable to equity shareholders	10.9	(4.3)	6.6	9.4	(135.3)	(125.9)
Free cash flow <sup>3</sup>			(15.4)			10.7
Net debt at period end <sup>4</sup>			386.6			228.2
ROCE			19.0%			16.6%
Net working capital % sales			19.0%			17.8%

<sup>1</sup> The basis of preparation is set out in note 1 of the Coats financial information and includes the restatement of 2012 for adoption of IAS19 (revised)

<sup>2</sup> Exceptional items are set out in note 3 of the Coats financial information

<sup>3</sup> 2012 free cash flow includes benefit of assignment of receivables to GPG (\$25 million)

<sup>4</sup> Net debt at 30 June 2012 is before payment in July 2012 of the European Commission fine and interest of \$174.8 million

Highlights

- Continued improved trading performance despite mixed market conditions
- Like-for-like half year sales up 4% - both Divisions growing
- 13% like-for-like improvement in operating profit before exceptionals
- Pre-exceptional operating margins increased from 6.9% to 7.6%
- 18% increase in profit before tax, before exceptional items
- Reorganisation activity on track
- US antitrust litigation settled - exceptional net charge of \$2.7 million net of tax
- H1 free cash flow profile in line with prior half year excluding GPG short term financing
- New Coats Chairman appointed (see separate announcement of 21 August)

‘Coats’ performance during the first half of 2013 has continued to improve and build on the growth achieved in the second half of 2012, despite market conditions remaining mixed. Both divisions have grown sales with the productivity, procurement and reorganisation activity resulting in improved profitability and we are confident of continued progress in the second half.’

Paul Forman,  
Group Chief Executive  
Coats plc

## Operating Review

COATS GROUP	H1 2013 Reported \$ m	H1 2012 Like-for-like <sup>1</sup> \$ m	H1 2012 Restated <sup>2</sup> \$ m	Like-for-like Increase %	Actual Increase %
Revenue					
Industrial	606.7	585.1	591.7	3.7%	2.5%
Crafts	233.0	224.8	227.6	3.6%	2.4%
Total revenue	839.7	809.9	819.3	3.7%	2.5%
Pre-exceptional operating profit <sup>3</sup>					
Industrial	54.6	50.6	50.4	7.9%	8.3%
Crafts	9.0	5.6	6.4	60.7%	40.6%
Total	63.6	56.2	56.8	13.2%	12.0%

<sup>1</sup> 2012 like-for-like restates 2012 figures at 2013 exchange rates

<sup>2</sup> In line with the reporting of full year 2012 results and following changes during 2012 to the Group's internal management structure, results for Asia and Rest of World are reported in the Industrial division, and the H1 2012 comparative figures have been restated accordingly. 2012 pre-exceptional operating profit results have also been restated for the adoption of IAS19 (revised)

<sup>3</sup> Pre reorganisation and other exceptional items (note 3 to the 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.*

Coats' trading over the last two quarters has been encouraging despite the continued mixed market conditions. Driven by growth across both operating divisions; sales during the first half increased by 3.7% year-on-year on a like-for-like constant currency basis. This measure gives the best view of underlying performance.

The Industrial Division's sales increase was largely driven by demand for clothing and footwear in developed economies, primarily North America, as well as a normalisation of inventory levels in the related retail supply chains. Demand over the last six months has again been impacted by uncertain economic conditions, particularly in Europe. In addition, the trend in our key Brazilian market for local apparel and footwear production to be replaced by imports has continued to place pressure on this market. Despite these challenges first half sales in this Division increased by 3.7% on a like-for-like basis reflecting Coats' global footprint and strong relationships with the major brands in the apparel and footwear sectors.

Crafts sales were up 3.6% on a like-for-like basis driven by further expansion in shelf space with large US retail customers. There was also on-going strong growth in handknittings, particularly in North America and Europe.

Coats' pre-exceptional operating profit of \$63.6 million represents 13.2% growth. Both divisions continued to offset inflationary cost rises in the business with procurement and productivity improvements coupled with pricing initiatives.

The Industrial Division's operating profit rose by \$4.0 million (7.9%), with the operating profit margin up to 9.0% from 8.6% in 2012. Successful reorganisation of the Crafts Division has driven a 60.7% rise in operating profit to \$9.0 million, with margins up to 3.9% from 2.5% in 2012.

Sales growth at actual exchange rates of 2.5% and 2.4% has been achieved in the Industrial and Crafts Divisions respectively.

## Industrial Division

INDUSTRIAL	H1 2013 Reported \$ m	H1 2012 Like-for-like <sup>1</sup> \$ m	H1 2012 Restated <sup>2</sup> \$ m	Like-for-like Increase/ (decrease) %	Actual Increase/ (decrease) %
Revenue					
Asia and Australasia	325.5	301.8	305.6	7.9%	6.5%
EMEA	138.9	133.9	134.1	3.7%	3.6%
Americas	142.3	149.4	152.0	(4.8)%	(6.4)%
Total revenue	606.7	585.1	591.7	3.7%	2.5%
Pre-exceptional operating profit <sup>3</sup>	54.6	50.6	50.4	7.9%	8.3%

<sup>1</sup> 2012 like-for-like restates 2012 figures at 2013 exchange rates

<sup>2</sup> In line with the reporting of full year 2012 results and following changes during 2012 to the Group's internal management structure, results for Asia and Australasia are reported in the Industrial division, and the H1 2012 comparative figures have been restated accordingly. 2012 pre-exceptional operating profit results have also been restated for the adoption of IAS19 (revised)

<sup>3</sup> Pre reorganisation and other exceptional items (note 3 to the 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.*

The Industrial Division's sales rose 3.7% primarily following increased demand for thread in the apparel markets. Sales of trim and zips products continue to grow at a more modest rate, as does the general footwear market. Speciality thread also continued to grow as we increased sales in Asian and Latin American markets.

Asia and Australasia sales increased by 7.9% year-on-year across the region, primarily driven by demand across the US and Western Europe.

The EMEA sales increase of 3.7% was driven by improvements in most geographies and all key regions showed a year-on-year increase.

The Americas sales decline (4.8% in the period under review) reflected the performance within Latin America where softer demand in Brazil and some short term supply chain pressures due to a major ERP implementation adversely impacted performance. North American manufacturing and defence sector weakness also had a negative impact on Speciality product sales in that region.

While the positive mix impact from premium product sales primarily in Asia was offset to an extent by the ERP issues in Brazil, the more stable raw material prices, productivity gains, procurement activity and pricing initiatives have offset inflationary pressures. These elements drove an increase in pre-exceptional operating profit margin to 9.0% from 8.6% in the prior year.

## Crafts Division

CRAFTS	H1 2013 Reported	H1 2012 Like-for-like <sup>1</sup>	H1 2012 Restated <sup>2</sup>	Like-for-like Increase %	Actual Increase/ (decrease) %
	\$ m	\$ m	\$ m		
Revenue					
EMEA	82.3	76.8	76.2	7.2%	8.0%
Americas	150.7	148.0	151.4	1.8%	(0.5)%
Total revenue	233.0	224.8	227.6	3.6%	2.4%
Pre-exceptional operating profit <sup>3</sup>	9.0	5.6	6.4	60.7%	40.6%

<sup>1</sup> 2012 like-for-like restates 2012 figures at 2013 exchange rates

<sup>2</sup> In line with the reporting of full year 2012 results and following changes during 2012 to the Group's internal management structure, results for Asia and Rest of World are reported in the Industrial division, and the H1 2012 comparative figures have been restated accordingly. 2012 pre-exceptional operating profit results have also been restated for the adoption of IAS19 (revised)

<sup>3</sup> Pre reorganisation and other exceptional items (note 3 to the 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 3.6% despite some disruption from on-going reorganisation activity in the period. Sales of handknitting products, rather than the traditional sewing products, continued to drive growth.

Within EMEA there was consistent demand in the period for handknittings, the largest product category. Overall growth in EMEA sales was 7.2% year-on-year. This builds on the positive performance during the second half of 2012, following several years of decline.

Sales growth of 1.8% in the Americas is again primarily due to handknittings, especially in the fashion yarn segment which includes Red Heart's Sashay yarn. North America was particularly strong, and digital activity continues to grow. However, performance in Latin America has been adversely impacted on a short term basis by poor availability of goods as a result of ERP implementation operational challenges in Brazil.

The continued operational efficiency focus driven primarily by the reorganisation activity in the EMEA region underpinned the increase in pre-exceptional operating profit margin of the Crafts division to 3.9% from 2.5% in the prior year. EMEA operating losses were \$4.6 million lower year-on-year.

### Financial overview

#### Summary

For the first half of 2013 reported Coats revenues were \$840 million, representing growth of 2.5%. Growth on a like-for-like constant currency basis was 3.7%. Reported pre-exceptional operating profit was \$63.6 million, representing growth of 12.0%. Post-exceptional items, the operating profit for the period was \$59.4 million (2012 - \$44.3 million loss).

## Tax

The taxation charge for the first six months of 2013 is \$27.5 million (2012 - \$19.4 million). Excluding all exceptional items and prior year tax adjustments, the rate on pre-tax profits of \$43.1 million (2012 - \$36.6 million) is 61% (2012 - 59%). The tax rate has been adversely impacted by the adoption of IAS19 (revised). The increase in the 2013 tax rate as a result of the adoption of this accounting standard is 19% and, following the restatement of the 2012 comparatives to comply with IAS19 (revised), the 2012 tax rate has increased by 18% from the 41% reported in the 2012 half year report. The 2% increase in the period in the effective tax rate has primarily been driven by the impact of changes to the geographical mix of profits and losses, in particular Brazil.

During the period, Coats engaged external consultants to assist in a global review of the corporate tax affairs of the company. This review is expected to conclude during the second half of the year.

## Exceptional items

Net exceptional costs charged to profit before taxation totalled \$4.2 million (2012 - \$136.9 million, of which \$84.6 million related to the previously announced European Commission fine and \$35.8 million to associated interest charges).

Included in net exceptional costs is the profit on sale of property in Peru of \$18.4 million (2012 - \$nil). Exceptional expense items include reorganisation, \$14.7 million (2012 - \$11.2 million); US antitrust settlement, net of existing provisions, \$7.1 million (2012 - \$nil); and other exceptional costs, \$0.8 million (2012 - \$5.3 million).

### *US antitrust settlement*

Settlement has been reached in the US antitrust litigation which had been pending in the US District Court for the Eastern District of Pennsylvania. The settlement is subject to the Court's approval and relates to alleged activity in the period from 1991–2007. While Coats denies that it breached any US antitrust law and continues to believe it has good defences to the claims alleged, it decided to enter into the settlement to avoid further expense and the distraction of on-going and protracted litigation in the US.

The settlement amount of \$9.9 million includes plaintiffs' legal costs and expenses. The net exceptional charge arising from this settlement is \$2.7 million post US tax deductions of \$4.4 million.

## Investment

Investment continued in the first half of 2013 to support the growth of the business and to improve its operational performance.

Investment in new plant and systems amounted to \$12.7 million (2012 - \$19.8 million). This capital expenditure was focussed on productivity improvements in the Industrial Division, primarily in EMEA. Capital expenditure was lower than anticipated at 0.5 times depreciation due to the phasing of spend in the first half of the year versus the second half across the regions.

Reorganisation costs were \$14.7 million (2012 - \$11.2 million), concentrated on the continued restructuring of the European Industrial thread and EMEA Crafts operations.

## Cash flow

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was \$88.6 million (2012 - \$84.0 million).

The historic free cash flow trend, whereby the second half cash inflow significantly exceeds that in the first half, continued with the first half cash outflow of \$15.4 million (2012 - \$10.7 million inflow). The higher cash inflow in 2012 primarily reflected the benefit of assignment of receivables to GPG not repeated in 2013 (2012 - \$25.0 million), while 2013 has seen increases in the underlying net working capital outflow (\$19.6 million higher) driven by business growth and taxation payments (\$13.1 million higher), partly offset by reduced capital expenditure (\$7.1 million lower) and proceeds of \$18.4 million from a property sale in Peru.

The higher taxation payments in 2013 primarily reflected the increased first half operating profit and the timing of “on account” payments, including the payment deferral of a \$4.9 million 2012 US tax liability into 2013.

Net cash outflow for reorganisation activity (\$11.2 million in the period under review) was primarily in relation to restructuring the EMEA Crafts operation announced in 2012 and the European Industrial thread operation undertaken in 2013. 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.

Following a review of the reorganisation programme, one of the proposed projects will be scaled back, reducing the expected exceptional reorganisation P&L charge in 2013 from \$35 million to approximately \$20 million. The planned disposal of the properties associated with the project will no longer take place and, as a consequence, the overall accelerated reorganisation programme announced in 2012 will no longer be self-financing. We therefore now expect a net cash outflow across the years 2013 and 2014 of c. \$20 million, excluding the benefits associated with the accelerated programme. All other reorganisation activity remains on track.

Net debt increased from \$367.6 million at the 2012 year end to \$386.6 million at the end of June 2013, and was \$16.4 million below the June 2012 like-for-like level of \$403.0 million (adjusted for the European Commission fine paid in July 2012 of \$174.8 million, including interest).

A key metric for the 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 30 June 2013 was 2.1 times EBITDA of the preceding twelve months (June 2012 - 2.3 times), well within Coats’ covenant limit of 3.0 times.

## Balance sheet

Equity shareholders’ funds increased from \$77.9 million at the end of 2012 to \$184.6 million at June 2013. This primarily reflects the attributable profit of \$6.6 million and actuarial gains in respect of retirement schemes of \$98.0 million due to good asset performance in the period and increasing nominal interest rates (see below).

## Pensions and other post-employment benefits

The Group’s most significant funded defined benefit pension arrangement is the Coats Pension Plan in the UK. As at June 2013, the deficit in the UK scheme on an IAS19 accounting basis reduced significantly from \$261.8 million at the 2012 year end to \$151.6 million as a result of improved asset performance and an upturn in nominal interest rates in the UK.

Total company contributions to the UK scheme remain at \$13.1 million per annum (at 30 June 2013 exchange rates) in line with the ten year recovery plan agreed with the scheme’s trustee as part of the April 2009 triennial valuation. An in-principle agreement has been reached with the trustee in relation to the 2012 triennial valuation. This agreement, which remains subject to approval from the Company’s banks and submission to the UK Pensions Regulator, would see annual contributions increase by approximately \$11 million to \$24 million per annum. A further update will be given once the terms of the agreement have been approved by all parties.

## Prospects and conclusion

Coats continues to make good progress and the business is well placed to sustain and grow both revenue and profit, although trading conditions remain mixed across different geographies. The combination of Coats' market-leading position, relationship with leading brands and unparalleled geographic footprint represents a robust and defendable business model. In addition, the actions being taken, both in terms of restructuring and in new product development, digital technology and other commercial enablers will support profitable and cash generative growth.

The recent appointment of Mike Clasper as Coats' Chairman is a very positive development. His knowledge and expertise will help Coats in its on-going evolution and I am very much looking forward to working with him. On stepping down as Coats' Chairman, Mike Allen will remain on the Coats Board as a Non-Executive Director.

Paul Forman,  
Group Chief Executive  
Coats plc  
28 August 2013

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*Enquiry details are:*

For GPG:

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## About Coats

With a rich heritage dating back to the 1750s, Coats is the world's leading industrial thread and consumer textile crafts business, at home in more than 70 countries, employing more than 20,000 people across six continents. Revenues in 2012 were US\$1.7bn.

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

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

- One in five garments on the planet is held together using Coats' thread
- 75 million car airbags are made using Coats' thread every year
- Coats produces enough yarn to knit 65 million scarves a year
- In three and a half hours, Coats makes enough thread to go to the moon and back
- 300 million pairs of shoes are made every year using Coats' thread
- One million teabags using Coats' thread are brewed every 10 minutes
- Thousands of surgical operations take place every day using Coats' thread
- Thomas Edison used Coats' thread in 1879 to invent the light bulb
- Coats produces enough thread to reach around the Equator every 11 minutes
- Coats is the second largest and fastest growing global zip manufacturer

To find out more about Coats visit [www.coats.com](http://www.coats.com)



## INDEPENDENT REVIEW REPORT TO GUINNESS PEAT GROUP PLC

We have been engaged by the Guinness Peat Group plc (the ‘Company’) to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the reconciliation of consolidated changes in equity, the condensed statement of consolidated cash flows and related notes 1 to 18, Coats consolidated income statement for the six months ended 30 June 2013, the Coats consolidated statement of comprehensive income, the Coats consolidated statement of financial position, the Coats consolidated statement of changes in equity, the Coats consolidated statement of cash flows and related Coats notes 1 to 7 as presented within the Guinness Peat Group plc financial statements. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### **Directors’ responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 1 to the GPG condensed consolidated financial statements, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
28 August 2013

**GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Condensed Consolidated Income Statement

	Unaudited 6 months to 30 June 2013 £m	Unaudited 6 months to 30 June 2012 £m	*,**	Audited Year to 31 December 2012 £m	**
<b>Continuing Operations</b>					
Revenue	544	519		1,043	
Cost of sales (periods to June 2012 and December 2012: including £53m in respect of the EC fine)	<u>(359)</u>	<u>(398)</u>		<u>(755)</u>	
Gross profit	185	121		288	
Interest receivable - Parent Group	3	3		6	
Distribution costs	(91)	(88)		(177)	
Administrative expenses	<u>(70)</u>	<u>(77)</u>		<u>(142)</u>	
Operating profit/(loss)	27	(41)		(25)	
Interest and other income - Coats	1	1		2	
Share of profit of joint ventures	-	-		1	
Finance costs (periods to June 2012 and December 2012: including £23m in respect of the EC fine)	<u>(16)</u>	<u>(47)</u>		<u>(71)</u>	
Profit/(loss) before taxation from continuing operations (periods to June 2012 and December 2012: including £76m charge in respect of the EC fine)	12	(87)		(93)	
Tax on profit/(loss) from continuing operations	<u>(18)</u>	<u>(12)</u>		<u>(28)</u>	
Loss for the period from continuing operations	(6)	(99)		(121)	
<b>Discontinued Operations</b>					
Profit from discontinued operations	37	54		95	
Profit/(loss) for the period	<u>31</u>	<u>(45)</u>		<u>(26)</u>	
<b>Attributable to:</b>					
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>	<u>28</u>	<u>(49)</u>		<u>(29)</u>	
Non-controlling interests	3	4		3	
	<u>31</u>	<u>(45)</u>		<u>(26)</u>	
Earnings/(loss) per Ordinary Share from continuing and discontinued operations:					
Basic and diluted (pence)	1.90p	(3.01)p		(1.76)p	**
Loss per Ordinary Share from continuing operations:					
Basic and diluted (pence)	(0.58)p	(6.26)p	*	(7.76)p	**

\* Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations

\*\* Restated to reflect the adoption of IAS19 (revised) "Employee Benefits" (see note 1 on page 25)

GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 June 2013 £m	Unaudited * 6 months to 30 June 2012 £m	Audited * Year to 31 December 2012 £m
Profit/(loss) for the period	<u>31</u>	<u>(45)</u>	<u>(26)</u>
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on retirement benefit schemes	81	18	(12)
Tax on items that will not be reclassified	<u>-</u>	<u>(1)</u>	<u>(1)</u>
	<u>81</u>	<u>17</u>	<u>(13)</u>
Items that may be reclassified subsequently to profit or loss:			
Losses on revaluation of fixed asset investments	(4)	(17)	(13)
Exchange losses on translation of foreign operations	(9)	(2)	(14)
Gains/(losses) on cash flow hedges	2	(2)	(3)
Tax on items that may be reclassified	1	2	4
Transferred to profit or loss on sale of fixed asset investments	(12)	(29)	(40)
Transferred to profit or loss on sale of businesses	(7)	(21)	(39)
Transferred to profit or loss on cash flow hedges	2	2	3
	<u>(27)</u>	<u>(67)</u>	<u>(102)</u>
Net comprehensive income/(expense) for the period	<u>85</u>	<u>(95)</u>	<u>(141)</u>
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY	<u>82</u>	<u>(99)</u>	<u>(143)</u>
Non-controlling interests	<u>3</u>	<u>4</u>	<u>2</u>
	<u>85</u>	<u>(95)</u>	<u>(141)</u>

\* Restated to reflect the adoption of IAS19 (revised) "Employee Benefits" (see note 1 on page 25)

GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Condensed Consolidated Statement of Financial Position

	Unaudited 30 June 2013 £m	Unaudited 30 June 2012 £m	Audited 31 December 2012 £m
<b>NON-CURRENT ASSETS</b>			
Intangible assets	169	165	160
Property, plant and equipment	225	274	226
Investments in associated undertakings	-	179	-
Investments in joint ventures	9	80	9
Fixed asset investments	2	111	2
Deferred tax assets	10	13	9
Pension surpluses	22	20	21
Trade and other receivables	11	16	13
	<u>448</u>	<u>858</u>	<u>440</u>
<b>CURRENT ASSETS</b>			
Inventories	206	214	191
Trade and other receivables	249	223	190
Current asset investments	-	11	10
Derivative financial instruments	2	1	2
Cash and cash equivalents	431	374	322
	<u>888</u>	<u>823</u>	<u>715</u>
Assets held for sale	<u>74</u>	<u>-</u>	<u>273</u>
<b>TOTAL ASSETS</b>	<u>1,410</u>	<u>1,681</u>	<u>1,428</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	246	260	220
Current tax liabilities	13	8	10
Capital Notes	-	179	-
Other borrowings	37	25	27
Derivative financial instruments	4	5	4
Provisions	50	115	46
	<u>350</u>	<u>592</u>	<u>307</u>
<b>NET CURRENT ASSETS</b>	<u>538</u>	<u>231</u>	<u>408</u>
Liabilities directly associated with assets held for sale	<u>-</u>	<u>-</u>	<u>37</u>

GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statement of Financial Position (continued)

	Unaudited 30 June 2013 £m	Unaudited 30 June 2012 £m	Audited 31 December 2012 £m
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	12	17	15
Deferred tax liabilities	26	26	25
Other borrowings	302	230	278
Derivative financial instruments	2	3	3
Retirement benefit obligations:			
Funded schemes	146	209	225
Unfunded schemes	65	53	61
Provisions	21	22	19
	574	560	626
<b>TOTAL LIABILITIES</b>	924	1,152	970
<b>NET ASSETS</b>	486	529	458
<b>EQUITY</b>			
Share capital	70	81	78
Share premium account	1	-	-
Translation reserve	72	117	89
Unrealised gains reserve	-	19	14
Capital reduction reserve	48	118	93
Other reserves	124	110	112
Retained earnings	157	58	48
<b>EQUITY SHAREHOLDERS' FUNDS</b>	472	503	434
Non-controlling interests	14	26	24
<b>TOTAL EQUITY</b>	486	529	458
<b>Net asset backing per share:</b>			
Pence	33.52	30.99	27.73
Australian cents	55.81	47.42	43.37
New Zealand cents	65.86	60.47	54.42

R J Campbell, Director

Approved by the Board on 27 August 2013

GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Reconciliation of Consolidated Changes in Equity

6 months ended 30 June 2013

	Share capital £m	Share premium account £m	Translation reserve £m	Unrealise 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
Total comprehensive income and expense for the period	-	-	(22)	(45)	-	1	(33)	(99)	4
Dividends	-	-	-	-	-	-	-	-	(3)
Dilution of investment in subsidiaries	-	-	-	-	-	-	-	-	1
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(40)
Balance as at 30 June 2012	81	-	117	19	118	110	58	503	26
Balance as at 1 January 2012	81	-	139	64	118	109	91	602	64
Total comprehensive income and expense for the year	-	-	(50)	(50)	-	-	(43)	(143)	2
Share buy-backs	(3)	-	-	-	(25)	3	-	(25)	-
Dividends	-	-	-	-	-	-	-	-	(4)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(38)
Balance as at 31 December 2012	78	-	89	14	93	112	48	434	24
Total comprehensive income and expense for the period	-	-	(17)	(14)	-	4	109	82	3
Share buy-backs	(8)	-	-	-	(45)	8	-	(45)	-
Dividends	-	-	-	-	-	-	-	-	(3)
Share issues	-	1	-	-	-	-	-	1	-
Dilution of investment in subsidiaries	-	-	-	-	-	-	-	-	1
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(11)
Balance as at 30 June 2013	70	1	72	-	48	124	157	472	14

GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Condensed Statement of Consolidated Cash Flows

	Unaudited 6 months to 30 June 2013 £m	Unaudited * 6 months to 30 June 2012 £m	Audited Year to 31 December 2012 £m
<b>Cash inflow from operating activities</b>			
Net cash inflow from operating activities	100	102	134
Interest paid	(8)	(17)	(58)
Taxation paid	(19)	(12)	(24)
<b>Net cash generated by operating activities</b>	<b>73</b>	<b>73</b>	<b>52</b>
<b>Cash inflow from investing activities</b>			
Investment income	1	3	6
Property disposal proceeds, capital expenditure and financial investment	3	(13)	(27)
Acquisitions and disposals	63	84	193
<b>Net cash generated by investing activities</b>	<b>67</b>	<b>74</b>	<b>172</b>
<b>Cash outflow from financing activities</b>			
Net buyback of Ordinary Shares	(45)	-	(24)
Dividends paid to non-controlling interests	(3)	(3)	(5)
Net increase/(decrease) in borrowings	16	(36)	(142)
<b>Net cash absorbed in financing activities</b>	<b>(32)</b>	<b>(39)</b>	<b>(171)</b>
<b>Net increase in cash and cash equivalents</b>	<b>108</b>	<b>108</b>	<b>53</b>
Cash and cash equivalents at beginning of the period	311	259	259
Exchange gains/(losses) on cash and cash equivalents	3	2	(1)
<b>CASH AND CASH EQUIVALENTS AT END OF THE</b>	<b>422</b>	<b>369</b>	<b>311</b>
<b>Cash and cash equivalents per the Condensed Consolidated Statement of Financial Position</b>	<b>431</b>	<b>374</b>	<b>322</b>
Bank overdrafts	(9)	(5)	(11)
<b>CASH AND CASH EQUIVALENTS AT END OF THE</b>	<b>422</b>	<b>369</b>	<b>311</b>
<b>Summary of net debt</b>			
- Parent Group** cash	347	289	243
- Capital Notes	-	(179)	-
- Parent Group net cash	347	110	243
- Other group cash	84	85	79
- Other group debt	(339)	(255)	(305)
<b>Total group net cash/(debt)</b>	<b>92</b>	<b>(60)</b>	<b>17</b>

\* Restated to reflect Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations

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



## NOTES TO THE GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with IAS34 “Interim Financial Reporting”, as adopted by the European Union, and comply with the disclosure requirements of the Listing Rules of the UK Financial Services Authority and the Listing Rules of the Australian Securities Exchange.

Other than the adoption of amendments to IAS1 “Presentation of items in Other Comprehensive Income”, IAS19 “Employee Benefits” and IFRS13 “Fair Value Measurement”, the same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group’s latest annual audited financial statements, and are expected to be applied in the annual audited financial statements for the current year.

The impact of adoption of amendments to IAS19 – effective from 1 January 2013 but applied retrospectively – is as follows:

	6 months to 30 June 2013 £m	6 months to 30 June 2012 £m	Year to 31 December 2012 £m
Increase in operating expenses re administration costs	(3)	(2)	(5)
Increase in finance costs	(14)	(12)	(22)
Decrease in tax charge	-	1	1
Increase in net actuarial gains/decrease in net actuarial losses in other comprehensive income	17	13	26

IAS19 (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 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.

Other than a change in the presentation of items within the Statement of Comprehensive Income, the adoption of amendments to IAS1 has no impact on the consolidated financial statements.

The adoption of IFRS13 has had no significant impact on these condensed consolidated financial statements.

At 30 June 2013 the Parent Group had cash totalling £347 million (30 June 2012: net cash £110 million; 31 December 2012: cash £243 million). The Parent Group also has various 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 Condensed Statement of Consolidated 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 Parent Group to realise its liquid investments and to manage the timing of such liquidations; the uncertainty inherent in the capital markets in which it operates; the Group’s foreign currency exposures; the potential requirement to provide funding to the Group’s defined benefit pension schemes; the capital structure to be adopted by GPG in readiness for its re-launch as Coats; 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 this financial information is prepared on that basis.

- The condensed consolidated financial statements for the six months ended 30 June 2013 have been reviewed - see attached independent review report - but have not been audited. The condensed consolidated financial statements for the equivalent period in 2012 were also reviewed but not audited.

## NOTES TO THE GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. (continued)

The information for the year ended 31 December 2012 does not constitute statutory accounts (as defined in section 434 of the Companies Act 2006). The financial information for the year ended 31 December 2012, as adjusted for the impact of the adoption of amendments to IAS19, is derived from the statutory accounts for that year, which have been filed with the Registrar of Companies. The audit report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain statements under Sections 498(2) or 498(3) of the Companies Act 2006.

3. Group foreign exchange movements - during the six months to 30 June 2013, GPG recognised within operating profit £1 million of net foreign exchange gains (six months to 30 June 2012: £4 million losses\*; year to 31 December 2012: £2 million losses).

\* Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations.

4. Tax on profit/(loss) from continuing operations

	30 June 2013	30 June 2012 *, **	31 December 2012 **
	£m	£m	£m
UK Corporation tax at 23.5% (June 2012: 25.0%; December 2012: 24.5%)	-	-	-
Overseas tax	(19)	(11)	(29)
	(19)	(11)	(29)
Deferred tax	1	(1)	1
	(18)	(12)	(28)

The tax charges for all periods reflect the impact of unrelieved losses in certain subsidiary undertakings.

\* Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations.

\*\* Restated to reflect the adoption of IAS19 (revised) "Employee Benefits" (see note 1 on page 25).

5. The Parent Group's joint ventures and associated undertakings were as follows:

	30 June 2013	30 June 2012	31 December 2012
Capral Ltd	na	47.4%	47.4%
ClearView Wealth Ltd	na	47.8%	na
Green's General Foods Pty Ltd	na	72.5%	na
Tower Ltd	33.6%	33.6%	33.6%

At 30 June 2013 the investment in Tower Ltd is included in Assets Held for Sale.

At 31 December 2012 the investments in Capral Ltd and Tower Ltd were included in Assets Held for Sale.

NOTES TO THE GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued

6. Segmental Analysis: Analysis by activity

	Investment £m	Thread manufacture £m	Fruit/produce distribution £m	Unallocated £m	Non- operating items (note 1) £m	Total £m
6 months ended 30 June 2013:						
Revenue:						
External sales	-	544	-	-	-	544
Results:						
<i>Continuing operations</i>						
Operating (loss)/profit	(11)	38	-	-	-	27
(Loss)/profit after tax	(13)	7	-	-	-	(6)
<i>Discontinued operations</i>						
Profit after tax	20	-	-	17	-	37
Total assets 30 June 2013	353	867	-	-	190	1,410
6 months ended 30 June 2012 (notes 2, 3 and 4):						
Revenue:						
External sales	-	519	-	-	-	519
Results:						
<i>Continuing operations</i>						
Operating loss	(13)	(28)	-	-	-	(41)
Loss after tax	(23)	(76)	-	-	-	(99)
<i>Discontinued operations</i>						
Profit/(loss) after tax	30	(1)	25	-	-	54
Total assets 30 June 2012	431	824	-	59	367	1,681
Year ended 31 December 2012 (notes 2 and 3):						
Revenue:						
External sales	-	1,043	-	-	-	1,043
Results:						
<i>Continuing operations</i>						
Operating loss	(17)	(8)	-	-	-	(25)
Loss after tax	(35)	(86)	-	-	-	(121)
<i>Discontinued operations</i>						
Profit/(loss) after tax	78	(2)	25	(6)	-	95
Total assets 31 December 2012	258	793	-	-	377	1,428

Notes:

1. Non-operating items comprise 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.
2. Excluding the effect of the EC fine the result from thread manufacturing was a profit after tax from continuing operations of £Nil for the 6 months ended 30 June 2012 and a loss after tax from continuing operations of £10 million for the year ended 31 December 2012.
3. Restated to reflect the adoption of IAS19 (revised) "Employee Benefits" (see note 1 on page 25).
4. Restated to reflect Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations.

NOTES TO THE GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

7. Discontinued operations

The combined results of discontinued operations were as follows:

			6 months to 30 June 2013 £m	6 months to 30 June 2012 £m	* Year to 31 December 2012 £m
	Investment	Unallocated	Total	Total	Total
Revenue	10	2	12	89	108
Cost of sales	(10)	(1)	(11)	(61)	(69)
Expenses	1	(6)	(5)	(30)	(42)
	1	(5)	(4)	(2)	(3)
Other income	21	5	26	72	93
Finance costs	-	(1)	(1)	(2)	(3)
Profit/(loss) before tax	22	(1)	21	68	87
Attributable tax	(2)	1	(1)	(1)	(4)
Profit after tax	20	-	20	67	83
Loss arising on measurement to fair value	-	-	-	-	(17)
Gain/(loss) on disposal of businesses	-	17	17	(13)	29
Gain on discontinued operations	20	17	37	54	95

In May 2013 the Group completed the sale of CIC Australia Ltd ('CIC'), a former subsidiary undertaking in the unallocated business segment. The gain on disposal of CIC, which was accounted for as an asset held for sale at 31 December 2012, was £17 million.

Other income within "Investment" above includes £22 million capital returns, and £5 million dividends, from Tower, partially offset by a £19 million impairment charge to reflect Tower's market value at 30 June 2013.

\* Restated to reflect Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations.

7. Discontinued operations (continued)

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	30 June 2013 £m	31 December 2012 £m
Property, plant and equipment	1	20
Associated undertakings	69	113
Joint ventures	-	36
Other fixed asset investments	4	76
Deferred tax assets	-	4
Inventories	-	7
Due from associated undertakings and joint ventures	-	7
Trade and other receivables	-	2
Other financial asset receivables	-	4
Other receivables	-	1
Cash and cash equivalents	-	3
<b>Assets held for sale</b>	<u>74</u>	<u>273</u>
Due to associated undertakings	-	(13)
Other financial liability payables	-	(4)
Borrowings	-	(20)
<b>Liabilities directly associated with assets held for sale</b>	<u>-</u>	<u>(37)</u>

Associated undertakings classified as held for sale are reported at fair value less costs to sell. These assets are categorised as level 1 investments and their fair values are derived from quoted prices.

8. Earnings/(loss) per Ordinary Share – The calculation of earnings/(loss) per Ordinary Share is based on profit/(loss) after taxation attributable to shareholders and the weighted average number of 1,460,944,073 Ordinary Shares in issue during the six months ended 30 June 2013 (six months ended 30 June 2012: 1,622,676,844; year ended 31 December 2012: 1,618,876,707). For the calculation of diluted earnings/(loss) per Ordinary Share, the weighted average number of Ordinary Shares in issue is adjusted, where appropriate, to assume conversion of all dilutive potential Ordinary Shares, being share options granted to employees and Capital Notes. Calculations of earnings/(loss) per Ordinary Share are based on results to the nearest £000s.

- 9 Net tangible assets per share at 30 June 2013 are 22.45p (30 June 2012: 22.38p, 31 December 2012: 19.07p).

10 Issued share capital

	Number of Shares	£m
At 1 January 2013	1,565,935,990	78
Share buy-backs	(160,501,683)	(8)
Exercise of options	1,717,816	-
<b>At 30 June 2013</b>	<u>1,407,152,123</u>	<u>70</u>

11. Dividends - No dividend was paid during the period or approved in respect of the period (2012: Nil).

12. 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 \$117 million.

12 Contingent liabilities (continued)

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 2.0%. The interim allocation is expressly limited to the RI/FS and related expenditures, and is subject to reallocation after the RI/FS has been issued. CC believes that there are many parties that will participate in its 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 allocation.

USEPA has indicated that it expects to issue a Focused Feasibility Study (‘FFS’) for remediation of the lower 8 miles of the Lower Passaic River during 2013, 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 \$0.7 million and this was included in the \$8.0 million US environmental exceptional charge.

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.

13. There have been no changes to the principal risks and uncertainties compared to those outlined in note 37 to the Financial Statements and the Corporate Governance Statement in the 2012 Annual Report, comprising risks associated with currency, interest rate, market price, liquidity, capital, credit, human resources, pensions and regulatory compliance. As announced to the market, initially in April 2013, the UK Pensions Regulator is undertaking investigations into whether financial support should be provided to one or more of the Group’s UK defined benefit pension schemes by the Company, or one or more other group companies under the provisions of the UK Pensions Act 2004.

14. Post Balance Sheet Events

At 30 June 2013 the Tower share price was NZ\$1.95 (GPG share £69 million). In August 2013 Tower announced the completion of the sale of the bulk of its life insurance business and the arrangements which had been agreed with the Reserve Bank of New Zealand relating to its licensing conditions and in particular its minimum solvency capital requirements. As at 23 August 2013 the Tower share price was NZ\$1.72.

Since 30 June 2013 Coats has reached a preliminary settlement in the US fasteners antitrust litigation which has been pending in the US District Court for the Eastern District of Pennsylvania and which was disclosed in the 2012 Annual Report. The litigation related to the period from 1991-2007 and, while Coats denies that it breached any US antitrust laws and continues to believe it had good defences to the claims alleged, it has decided to enter into this settlement to avoid further expense and the distraction of on-going and protracted litigation. The cost of this preliminary settlement has been provided for in the results for the six month period to 30 June 2013.

15. Related party transactions – There have been no related party transactions or changes in related party transactions described in the 2012 Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

## NOTES TO THE GPG CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – continued

16. Directors - The following persons were, except where noted, directors of GPG during the whole of the period and up to the date of this report:
- R J Campbell  
M N Allen  
Sir Ron Brierley  
S L Malcolm  
B A Nixon  
W R Szlezak (appointed 6 March 2013)
17. Interim Management Report – The Chairman’s Statement appearing in the half-yearly financial report and signed by Rob Campbell provides a review of the operations of the Group for the six months ended 30 June 2013.
18. Publication – This statement will be available at the registered office of the Company, First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP. A copy will also be displayed on the Company’s website on [www.gpgplc.com](http://www.gpgplc.com).

### **DIRECTORS’ RESPONSIBILITY STATEMENT**

In accordance with a resolution of the directors of Guinness Peat Group plc I state that:  
in the opinion of the directors and to the best of their knowledge:

- a. the condensed set of unaudited financial statements:
- (i) give a true and fair view of the financial position as at 30 June 2013 and the performance of the consolidated Group for the half-year ended on that date;
  - (ii) have been prepared in accordance with IAS34 “Interim Financial Reporting”;
  - (iii) comply with the recognition and measurement principles of applicable International Financial Reporting Standards as adopted by the Group; and
- b. the half-yearly financial report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8; and
- c. there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

The Directors of Guinness Peat Group plc are listed in Note 16 to the Condensed Consolidated Financial Statements.

Signed on behalf of the Board  
R J Campbell, Director  
28 August 2013

## GPG Contact Details

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Incorporated and registered in England No. 103548



COATS FINANCIAL STATEMENTS  
Consolidated Income Statement (unaudited)

	Notes	2013 Half Year			2012 Half year * Restated		2012 Full year * Restated	
		Before Exceptional Items Unaudited	Exceptional items Unaudited	Total Unaudited	Before Exceptional items Unaudited	Exceptional items Unaudited	Total Unaudited	Total Unaudited
For the six months ended 30 June 2013		US\$ m	US\$ m	US\$ m	US\$m	US\$m	US\$m	US\$m
<b>Continuing operations</b>								
Revenue		839.7	-	839.7	819.3	-	819.3	1,653.4
Cost of sales		(532.8)	(21.8)	(554.6)	(529.3)	(99.0)	(628.3)	(1,197.5)
Gross profit		306.9	(21.8)	285.1	290.0	(99.0)	191.0	455.9
Distribution costs		(139.5)	-	(139.5)	(139.3)	-	(139.3)	(280.3)
Administrative expenses		(103.8)	(0.8)	(104.6)	(93.9)	(2.1)	(96.0)	(184.9)
Other operating income/ (expense)		-	18.4	18.4	-	-	-	(1.8)
Operating profit/(loss)		63.6	(4.2)	59.4	56.8	(101.1)	(44.3)	(11.1)
Share of profits of joint ventures		0.5	-	0.5	0.2	-	0.2	1.1
Investment income		1.3	-	1.3	1.3	-	1.3	2.6
Finance costs	4	(22.3)	-	(22.3)	(21.7)	(35.8)	(57.5)	(83.9)
Profit/(loss) before Taxation	3	43.1	(4.2)	38.9	36.6	(136.9)	(100.3)	(91.3)
Taxation	5	(27.4)	(0.1)	(27.5)	(21.0)	1.6	(19.4)	(44.9)
Profit/(loss) from continuing operations		15.7	(4.3)	11.4	15.6	(135.3)	(119.7)	(136.2)
<b>Discontinued operations</b>								
Loss from discontinued operations		(0.1)	-	(0.1)	(2.0)	-	(2.0)	(2.7)
Profit/(loss) for the period		15.6	(4.3)	11.3	13.6	(135.3)	(121.7)	(138.9)
<b>Attributable to:</b>								
EQUITY SHAREHOLDERS OF THE COMPANY		10.9	(4.3)	6.6	9.4	(135.3)	(125.9)	(146.4)
Non-controlling interests		4.7	-	4.7	4.2	-	4.2	7.5
		15.6	(4.3)	11.3	13.6	(135.3)	(121.7)	(138.9)

\* 2012 results have been restated to reflect the impact of the adoption of IAS19 (revised) "Employee Benefits" (see note 1 to the Financial Information)

COATS FINANCIAL STATEMENTS  
Consolidated Statement of Comprehensive Income (unaudited)

For the six months ended 30 June 2013	2013 Half year Unaudited US\$m	Restated 2012 Half year Unaudited US\$m	Restated 2012 Full year Unaudited US\$m
Profit/(loss) for the period	11.3	(121.7)	(138.9)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) in respect of retirement benefit schemes	98.0	25.3	(0.8)
Tax relating to items that will not be reclassified	-	(0.8)	(2.1)
	<u>98.0</u>	<u>24.5</u>	<u>(2.9)</u>
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
Gains/(losses) arising during the period	2.5	(2.3)	(4.7)
Transferred to profit or loss on cash flow hedges	2.8	2.8	5.7
Exchange differences on translation of foreign operations	<u>(3.4)</u>	<u>(4.5)</u>	<u>(7.4)</u>
	1.9	(4.0)	(6.4)
Other comprehensive income and expense for the period	<u>99.9</u>	<u>20.5</u>	<u>(9.3)</u>
Total comprehensive income and expense for the period	<u>111.2</u>	<u>(101.2)</u>	<u>(148.2)</u>
Attributable to:			
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>	<u>106.7</u>	<u>(105.5)</u>	<u>(155.8)</u>
Non-controlling interests	4.5	4.3	7.6
	<u>111.2</u>	<u>(101.2)</u>	<u>(148.2)</u>

COATS FINANCIAL STATEMENTS  
Consolidated Statement of Financial Position (unaudited)

At 30 June 2013	Notes	2013 30 June Unaudited US\$m	2012 30 June Unaudited US\$m	2012 31 December Unaudited US\$m
<b>Non-current assets</b>				
Intangible assets		258.7	259.4	260.1
Property, plant and equipment		341.5	378.9	366.9
Investments in joint ventures		14.0	15.4	13.4
Available-for-sale investments		3.2	2.9	3.1
Deferred tax assets		15.5	13.3	15.1
Pension surpluses		33.0	31.5	34.6
Trade and other receivables		16.3	15.3	15.1
		682.2	716.7	708.3
<b>Current assets</b>				
Inventories		313.0	316.6	310.8
Trade and other receivables		368.9	302.5	309.3
Available-for-sale investments		0.4	0.7	0.2
Cash and cash equivalents	7	128.7	125.8	128.4
		811.0	745.6	748.7
Non-current assets classified as held for sale		2.0	0.1	3.0
<b>Total assets</b>		1,495.2	1,462.4	1,460.0
<b>Current liabilities</b>				
Trade and other payables		(362.0)	(332.9)	(347.4)
Current income tax liabilities		(18.7)	(11.3)	(14.6)
Bank overdrafts and other borrowings		(56.4)	(31.1)	(43.9)
Provisions		(71.2)	(215.6)	(71.1)
		(508.3)	(590.9)	(477.0)
<b>Net current assets</b>		302.7	154.7	271.7
<b>Non-current liabilities</b>				
Trade and other payables		(21.6)	(23.4)	(22.6)
Deferred tax liabilities		(39.6)	(41.5)	(40.6)
Borrowings		(458.9)	(322.9)	(452.1)
Retirement benefit obligations:				
Funded schemes		(135.1)	(225.5)	(245.6)
Unfunded schemes		(98.4)	(82.7)	(99.4)
Provisions		(27.9)	(28.3)	(24.9)
		(781.5)	(724.3)	(885.2)
<b>Total liabilities</b>		(1,289.8)	(1,315.2)	(1,362.2)
<b>Net assets</b>		205.4	147.2	97.8
<b>Equity</b>				
Share capital		20.5	20.5	20.5
Share premium account		412.1	412.1	412.1
Hedging and translation reserve		(23.4)	(23.1)	(25.5)
Retained loss		(224.6)	(281.3)	(329.2)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		184.6	128.2	77.9
Non-controlling interests		20.8	19.0	19.9
<b>Total equity</b>		205.4	147.2	97.8

COATS FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity (unaudited)

	Share capital Unaudited US\$m	Share premium account Unaudited US\$m	Hedging reserve Unaudited US\$m	Translation reserve Unaudited US\$m	Retained (loss)/earnings 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 period	-	-	-	-	(125.9)	(125.9)	4.2	(121.7)
Other comprehensive income and expense for the period	-	-	0.5	(4.6)	24.5	20.4	0.1	20.5
Total comprehensive income and expense for the period	-	-	0.5	(4.6)	(101.4)	(105.5)	4.3	(101.2)
Dividends paid to non-controlling Interests	-	-	-	-	-	-	(3.2)	(3.2)
Balance as at 30 June 2012	20.5	412.1	(9.6)	(13.5)	(281.3)	128.2	19.0	147.2
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 period	-	-	-	-	6.6	6.6	4.7	11.3
Other comprehensive income and expense for the period	-	-	5.3	(3.2)	98.0	100.1	(0.2)	99.9
Total comprehensive income and expense for the period	-	-	5.3	(3.2)	104.6	106.7	4.5	111.2
Dividends paid to non-controlling Interests	-	-	-	-	-	-	(3.6)	(3.6)
Balance as at 30 June 2013	20.5	412.1	(3.8)	(19.6)	(224.6)	184.6	20.8	205.4

COATS FINANCIAL STATEMENTS  
Consolidated Statement of Cash Flows (unaudited)

For the six months ended 30 June 2013	Notes	2013 Half year Unaudited US\$m	2012 Half year Unaudited US\$m	2012 Full year Unaudited US\$m
<b>Cash inflow/(outflow) from operating activities</b>				
Net cash inflow generated by operations	6	24.7	63.1	8.3
Interest paid		(13.3)	(14.1)	(63.1)
Taxation paid		(28.6)	(15.5)	(35.3)
<b>Net cash (absorbed in)/generated by operating activities</b>		<u>(17.2)</u>	<u>33.5</u>	<u>(90.1)</u>
<b>Cash inflow/(outflow) from investing activities</b>				
Dividends received from joint ventures		0.4	0.9	0.9
Acquisition of property, plant and equipment and intangible assets		(12.7)	(19.8)	(38.8)
Disposal of property, plant and equipment and intangible assets		18.9	0.2	1.7
Acquisition of financial investments		(0.4)	(0.4)	(0.5)
Disposal of financial investments		-	-	0.3
(Acquisition)/disposal of businesses		(0.8)	(0.5)	2.1
<b>Net cash generated by/(absorbed in) investing activities</b>		<u>5.4</u>	<u>(19.6)</u>	<u>(34.3)</u>
<b>Cash inflow/(outflow) from financing activities</b>				
Dividends paid to non-controlling interests		(3.6)	(3.2)	(5.6)
Increase in debt and lease financing		25.1	21.0	151.9
<b>Net cash generated by financing activities</b>		<u>21.5</u>	<u>17.8</u>	<u>146.3</u>
<b>Net increase in cash and cash equivalents</b>		9.7	31.7	21.9
Net cash and cash equivalents at beginning of the period		110.4	85.6	85.6
Foreign exchange (losses)/gains on cash and cash equivalents		(6.0)	0.3	2.9
<b>Net cash and cash equivalents at end of the period</b>	7	<u>114.1</u>	<u>117.6</u>	<u>110.4</u>
<b>Reconciliation of net cash flow to movement in net debt</b>				
Net increase in cash and cash equivalents		9.7	31.7	21.9
Cash inflow from change in debt and lease financing		(25.1)	(21.0)	(151.9)
Change in net debt resulting from cash flows (Free cash flow)		(15.4)	10.7	(130.0)
Other		(1.1)	(1.1)	(2.3)
Exchange (losses)/gains		(2.5)	0.6	3.1
(Increase)/decrease in net debt		(19.0)	10.2	(129.2)
Net debt at start of period		(367.6)	(238.4)	(238.4)
<b>Net debt at end of period</b>	7	<u>(386.6)</u>	<u>(228.2)</u>	<u>(367.6)</u>

### 1 Basis of preparation

The financial information contained in this section of the report represents the unaudited results of Coats as contained within the unaudited consolidated financial information of GPG for the six months ended 30 June 2013 and 30 June 2012 and the audited consolidated financial information of GPG for the year ended 31 December 2012, as adjusted for the impact of the adoption of amendments to IAS1 and IAS19 (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 at 30 June 2013, 31 December 2012 and 30 June 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 further 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 as such has not been reflected in the results for the period to 30 June 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 included within audited financial information of its ultimate parent company, GPG.

The financial information for the six months ended 30 June 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 IAS1 "Presentation of items in Other Comprehensive Income" and IAS19 (revised) "Employee Benefits". The accounting policies adopted have been consistently applied to the financial information presented for the six months ended 30 June 2012 and the full year ended 31 December 2012 and, as the Group has applied IAS1 and IAS19 (revised) retrospectively, comparative amounts for these periods have been restated.

The amendments to IAS1 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 has been restated to reflect the change. The amendments affected presentation only and had no impact on the Group's financial position or performance.

IAS19 (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 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 IAS19 (revised) is set out in Note 2.

## Notes to the Coats Financial Statements (continued)

### 1 Basis of preparation (continued)

Enquiries have been made into the adequacy of the Group's financial resources, through a review of the current financial projections, reorganisation and capital expenditure plans and the financing facilities available. The Coats Group's forecasts and projections take account of reasonably possible changes in trading performance. Giving due consideration to the financial resources available to the Coats Group, it is appropriate to continue to adopt the going concern basis in preparing the financial information. In reaching this view on going concern, six categories of risk and contingent liabilities were considered. The six categories of risk considered were liquidity risk, capital risk, credit risk, currency risk, interest rate risk and market risk. The Coats Group is financed primarily through a banking facility subject to guarantees issued by Coats plc and certain of its principal subsidiaries. The Coats Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure that it has sufficient funds for its operations.

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

		June 2013	June 2012	December 2012
Average	Sterling	0.65	0.63	0.63
	Euro	0.76	0.77	0.78
	Brazilian Real	2.03	1.86	1.95
	Indian Rupee	55.00	52.10	53.80
Period end	Sterling	0.66	0.64	0.62
	Euro	0.77	0.79	0.76
	Brazilian Real	2.21	2.01	2.05
	Indian Rupee	59.39	55.50	55.00

## Notes to the Coats Financial Statements (continued)

### 2 Impact of adoption of IAS19 (revised) “Employee Benefits”

	2012			2012		
	Half year			Full year		
	As reported Unaudited US\$m	Adjustment Unaudited US\$m	As restated Unaudited US\$m	As reported Unaudited US\$m	Adjustment Unaudited US\$m	As restated Unaudited US\$m
<b>Consolidated Income Statement *</b>						
Administrative expenses	(90.8)	(3.1)	(93.9)	(181.1)	(6.4)	(187.5)
Operating profit	59.9	(3.1)	56.8	127.0	(6.4)	120.6
Finance costs	(7.5)	(14.2)	(21.7)	(19.4)	(28.7)	(48.1)
Profit before taxation	53.9	(17.3)	36.6	111.3	(35.1)	76.2
Taxation	(21.8)	0.8	(21.0)	(50.5)	1.7	(48.8)
Profit from continuing operations	32.1	(16.5)	15.6	60.8	(33.4)	27.4
Net profit attributable to equity shareholders	30.1	(16.5)	13.6	50.6	(33.4)	17.2

\* Before exceptional items (see note 3)

<b>Consolidated Income Statement</b>						
Administrative expenses	(92.9)	(3.1)	(96.0)	(178.5)	(6.4)	(184.9)
Operating loss	(41.2)	(3.1)	(44.3)	(4.7)	(6.4)	(11.1)
Finance costs	(43.3)	(14.2)	(57.5)	(55.2)	(28.7)	(83.9)
Loss before taxation	(83.0)	(17.3)	(100.3)	(56.2)	(35.1)	(91.3)
Taxation	(20.2)	0.8	(19.4)	(46.6)	1.7	(44.9)
Loss from continuing operations	(103.2)	(16.5)	(119.7)	(102.8)	(33.4)	(136.2)
Net loss attributable to equity shareholders	(105.2)	(16.5)	(121.7)	(113.0)	(33.4)	(146.4)

<b>Consolidated Statement of Comprehensive Income</b>						
Loss for the period	(105.2)	(16.5)	(121.7)	(105.5)	(33.4)	(138.9)
Actuarial gains/(losses) in respect of retirement benefit schemes	8.0	17.3	25.3	(35.9)	35.1	(0.8)
Taxation	-	(0.8)	(0.8)	(0.4)	(1.7)	(2.1)
Total comprehensive income and expense	(101.2)	-	(101.2)	(148.2)	-	(148.2)

<b>Consolidated Statement of Cash Flows</b>						
Operating loss	(41.2)	(3.1)	(44.3)	(4.7)	(6.4)	(11.1)
Provision movements	(9.4)	3.1	(6.3)	(16.3)	6.4	(9.9)
Net cash inflow generated by operations	63.1	-	63.1	8.3	-	8.3

The adoption of IAS19 (revised) has resulted in an increase in administrative expenses of \$3.2 million, an increase in finance costs of \$18.1 million and a decrease in the deferred tax charge of \$0.8 million for the six months to 30 June 2013 in the Consolidated Income Statement compared to what would have been recognised prior to the adoption of IAS19 (revised). The adoption of this standard has had no impact on net assets.



## Notes to the Coats Financial Statements (continued)

### 3 Profit/(loss) before taxation is stated after charging/(crediting):

	2013 Half year Unaudited US\$m	2012 Half year Unaudited US\$m	2012 Full year Unaudited US\$m
Exceptional items:			
<i>Cost of sales:</i>			
European Commission fine and associated exchange losses	-	84.6	84.6
US antitrust settlement costs	7.1	-	-
Reorganisation costs and impairment of property, plant and equipment	14.7	11.2	39.9
US environmental costs	-	3.2	8.0
	<u>21.8</u>	<u>99.0</u>	<u>132.5</u>
<i>Administrative expenses:</i>			
Capital incentive plan charge/(credit)	-	2.1	(2.6)
Transition costs of Coats to a standalone listed entity	0.8	-	-
	<u>0.8</u>	<u>2.1</u>	<u>(2.6)</u>
<i>Other operating (income)/expense:</i>			
(Profit)/loss on the sale of property	(18.4)	-	1.8
	<u>4.2</u>	<u>101.1</u>	<u>131.7</u>
<i>Finance costs:</i>			
European Commission fine interest cost	-	35.8	35.8
Total	<u>4.2</u>	<u>136.9</u>	<u>167.5</u>

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 \$117 million.

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 2.0%. The interim allocation is expressly limited to the RI/FS and related expenditures, and is subject to reallocation after the RI/FS has been issued. CC believes that there are many parties that will participate in its 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 allocation.

USEPA has indicated that it expects to issue a Focused Feasibility Study ('FFS') for remediation of the lower 8 miles of the Lower Passaic River during 2013, 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 \$0.7 million and this was included in the \$8.0 million US environmental exceptional charge.

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.

Since 30 June 2013 Coats has reached a preliminary settlement in the US fasteners antitrust litigation which has been pending in the US District Court for the Eastern District of Pennsylvania. The litigation related to the period from 1991-2007 and, while Coats denies that it breached any US antitrust laws and continues to believe it had good defences to the claims alleged, it has decided to enter into this settlement to avoid further expense and the distraction of on-going and protracted litigation. The cost of this preliminary settlement has been provided for in the results for the six month period to 30 June 2013.

## Notes to the Coats Financial Statements (continued)

### 4 Finance costs

	2013 Half year Unaudited US\$ m	Restated 2012 Half year Unaudited US\$m	Restated 2012 Full year Unaudited US\$m
<b>Non-exceptional items</b>			
Interest on bank and other borrowings	13.1	12.0	25.0
Net interest on pension scheme assets and liabilities	5.9	5.8	13.8
Other	3.3	3.9	9.3
	<u>22.3</u>	<u>21.7</u>	<u>48.1</u>
<b>Exceptional items (see note 3)</b>			
European Commission fine interest cost	-	35.8	35.8
<b>Total</b>	<u><u>22.3</u></u>	<u><u>57.5</u></u>	<u><u>83.9</u></u>

### 5 Taxation

The taxation charges for the six months ended 30 June 2013 and 30 June 2012 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

For the six months ended 30 June 2013 the tax charge in respect of exceptional items is \$0.1 million (2012 - tax credit of \$1.6 million). For the year ended 31 December 2012 the tax credit in respect of exceptional items was \$3.9 million.

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

	2013 Half year Unaudited US\$ m	Restated 2012 Half year Unaudited US\$m	Restated 2012 Full year Unaudited US\$m
Operating profit/(loss)	59.4	(44.3)	(11.1)
Depreciation	22.5	23.7	47.1
Amortisation of intangible assets (computer software)	2.5	3.5	5.7
Reorganisation costs (see note 3)	14.7	11.2	39.9
Exceptional (profit)/loss on sale of property (see note 3)	(18.4)	-	1.8
Other operating exceptional items (see note 3)	7.9	89.9	90.0
Pre-exceptional operating profit before depreciation and amortisation (EBITDA)	<u>88.6</u>	<u>84.0</u>	<u>173.4</u>
(Increase)/decrease in inventories	(16.6)	(4.0)	2.9
(Increase)/decrease in debtors	(58.4)	0.6	(5.3)
Increase/(decrease) in creditors	26.9	(0.1)	9.4
Provision movements	(3.4)	(6.3)	(9.9)
Other non-cash movements	1.4	1.3	1.3
Net cash inflow from normal operating activities	<u>38.5</u>	<u>75.5</u>	<u>171.8</u>
Net cash outflow in respect of reorganisation costs	(11.2)	(10.7)	(21.4)
Net cash outflow in respect of other operating exceptional items	(2.6)	(1.7)	(142.1)
Net cash inflow generated by operations	<u><u>24.7</u></u>	<u><u>63.1</u></u>	<u><u>8.3</u></u>

### 7 Net debt

	2013 Half year Unaudited US\$ m	2012 Half year Unaudited US\$m	2012 Full year Unaudited US\$m
Cash and cash equivalents	128.7	125.8	128.4
Bank overdrafts	(14.6)	(8.2)	(18.0)
Net cash and cash equivalents	<u>114.1</u>	<u>117.6</u>	<u>110.4</u>
Other borrowings	(500.7)	(345.8)	(478.0)
<b>Total net debt</b>	<u><u>(386.6)</u></u>	<u><u>(228.2)</u></u>	<u><u>(367.6)</u></u>