Coats – Global leader in thread

2009 results

March 2010

Agenda

- 2009 overview
- Industrial
- Crafts
- Financial summary
- Outlook

2009 overview

- Pre-exceptional operating profit down on 2008 by only $7m, despite sales being down by $237m
- Strong operating cash flow of $198m
- Average net working capital/sales ratio fell from 23% in 2008 to 20% in 2009
- Significant reduction of $100m in net debt from $359m at 31 December 2008 to $259m at 31 December 2009 and net gearing has fallen to 55%
- Average net debt for the year reduced to $367m (2008 - $426m)
- Industrial thread sales shortfalls have significantly reduced; 6% down on last year for the second half compared to 27% down for the first half
- Industrial thread pre-exceptional operating margin at 8%. Cost initiatives have mitigated sales volume impact
- Crafts business returned to profitability, with a $25m pre-exceptional operating profit (2008 - $7m loss) achieved
- Europe Crafts pre-exceptional operating losses fell by $21m
- North America Crafts sales have shown resilience to the recession and profits for the Americas were significantly up on 2008
- Headcount of 20,603 is down on 2008 by 1,478 or 7%

US$m	2009	2008
Revenue	1,408	1,645
Operating profit before reorganisation and other exceptional items	96	103
Operating profit	54	59
Profit before taxation	36	38
Net loss attributable to equity shareholders	(5)	(8)
Net cash inflow from operations before reorganisation and other exceptional items	198	158
Net debt*	259	359
Total equity	468	423
Net gearing*	55%	85%

**2008 net debt and net gearing figures have been adjusted to include amounts owed to GPG of $13m*

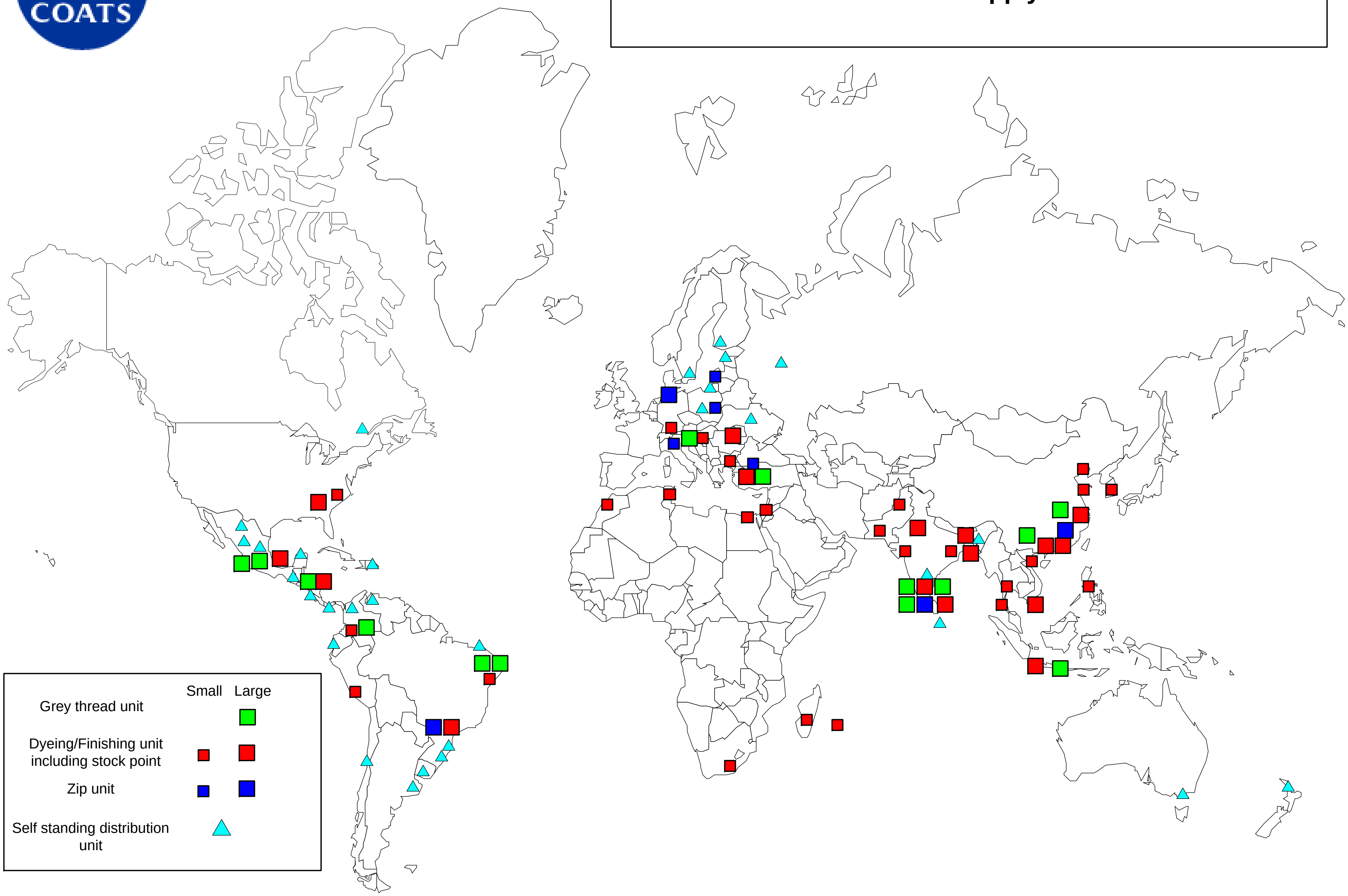
Industrial

Industrial – operating overview

- Leading player
  - $900m turnover business
  - 3x size of nearest industrial thread competitor
  - Manufacturing at 60 sites in 32 countries
  - Comprehensive product offer – apparel, speciality and zips

- Integrated global supply chains
  - Capability to service global brands locally, with operations in all major customer locations i.e. China, Vietnam, India, Indonesia, Sri Lanka, Bangladesh, Germany, Italy, E Europe, Turkey, US, Mexico, Brazil
  - Coats brands are specified by leading apparel, footwear and leather goods brands
  - Integrated SAP platform (including demand planning and scheduling - APO) and harmonised product offer enable Coats to react quickly to changes in economic conditions and customer demand
  - Lowest cost procurement
  - Low cost base – 92% industrial employees are in low cost countries
  - State of art proprietary Colour Management Systems

Coats Global Industrial Supply Chain - End 2009



Industrial sales by region

	2009 reported $m	L-F-L decrease full year %	Actual decrease 2009 first half %	Actual decrease 2009 second half* %	Actual decrease full year %
Sales					
Asia and Rest of World	459	-9%	-19%	-4%	-12%
Europe	181	-22%	-39%	-11%	-27%
Americas	248	-12%	-29%	-5%	-18%
Total sales	**888**	**-13%**	**-27%**	**-6%**	**-17%**
Pre-exceptional operating profit	**71**	**-32%**	**-52%**	**-7%**	**-35%**

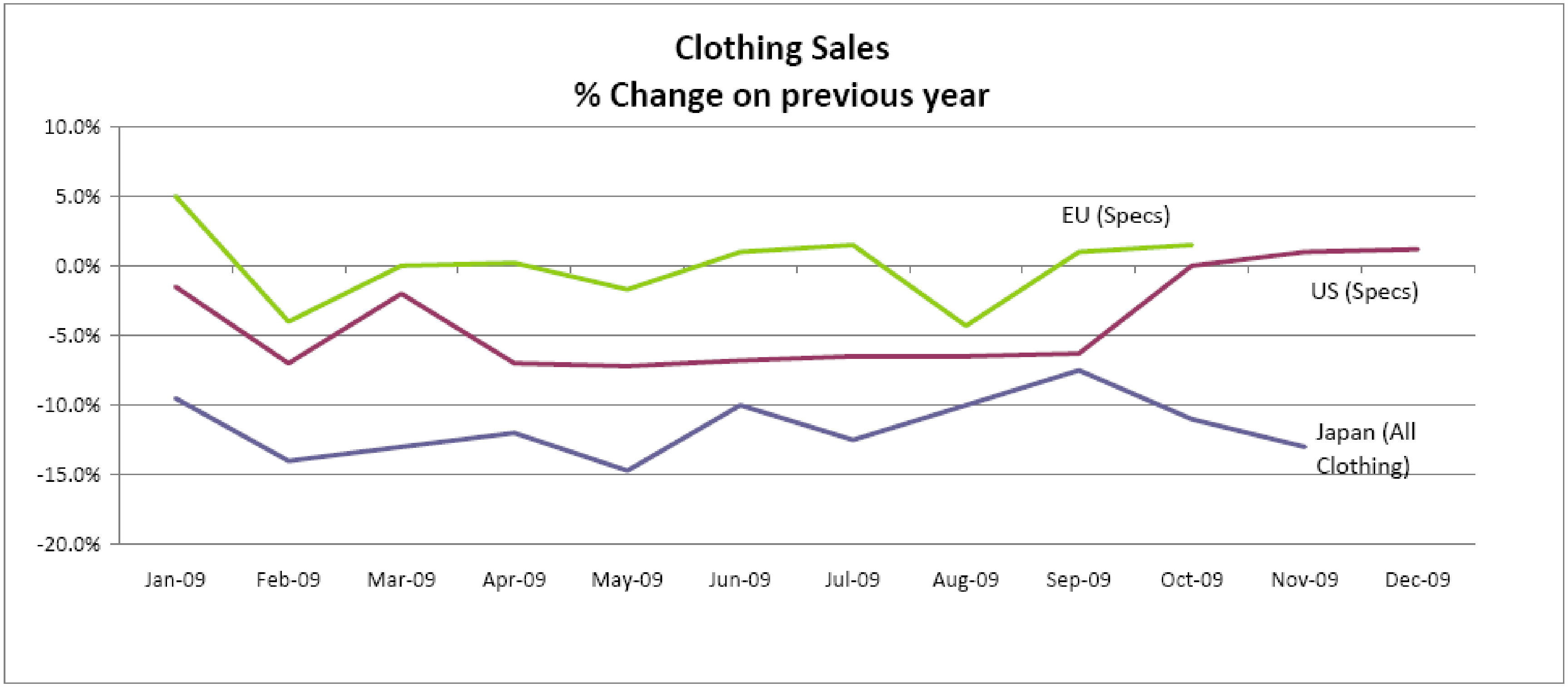
*Weak comparatives – Q4 2008 saw a sharp fall in sales

•Overall Asian performance reflects downturn in Asian apparel and footwear export sectors, due to weak retail demand in N America, W Europe and Japan but, encouragingly, there was sales growth on a L-F-L basis in certain territories, including India, one of Coats' key businesses

•European market severely impacted by global downturn, with customer base shrinking as businesses close. Poor retail sales and heavy destocking throughout supply chain

•Americas impacted by weak retail demand and destocking, compounded by increased penetration of apparel and footwear imports from Asia

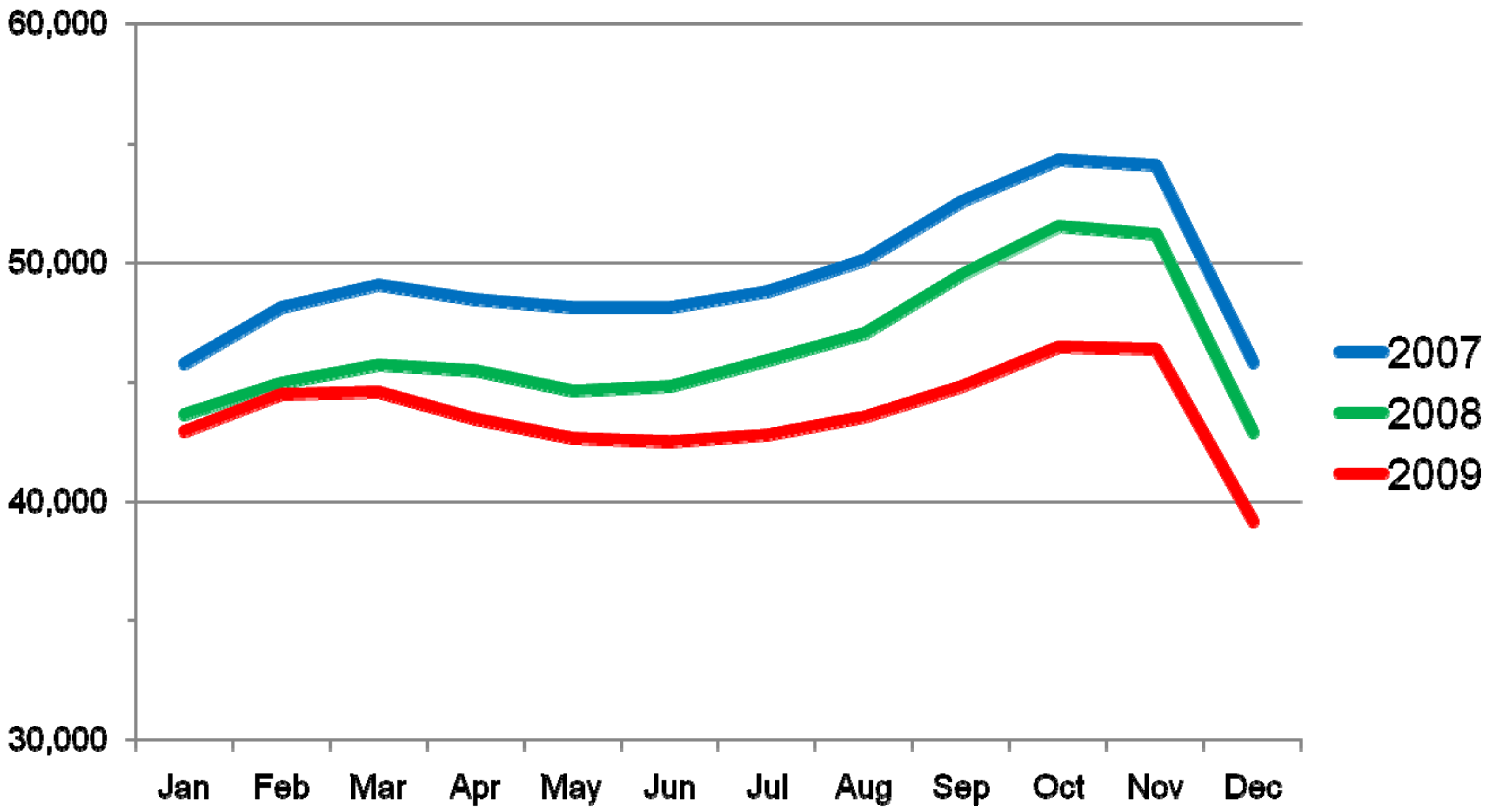
Apparel sales in key destination markets



EU and US data is for specialist clothing stores

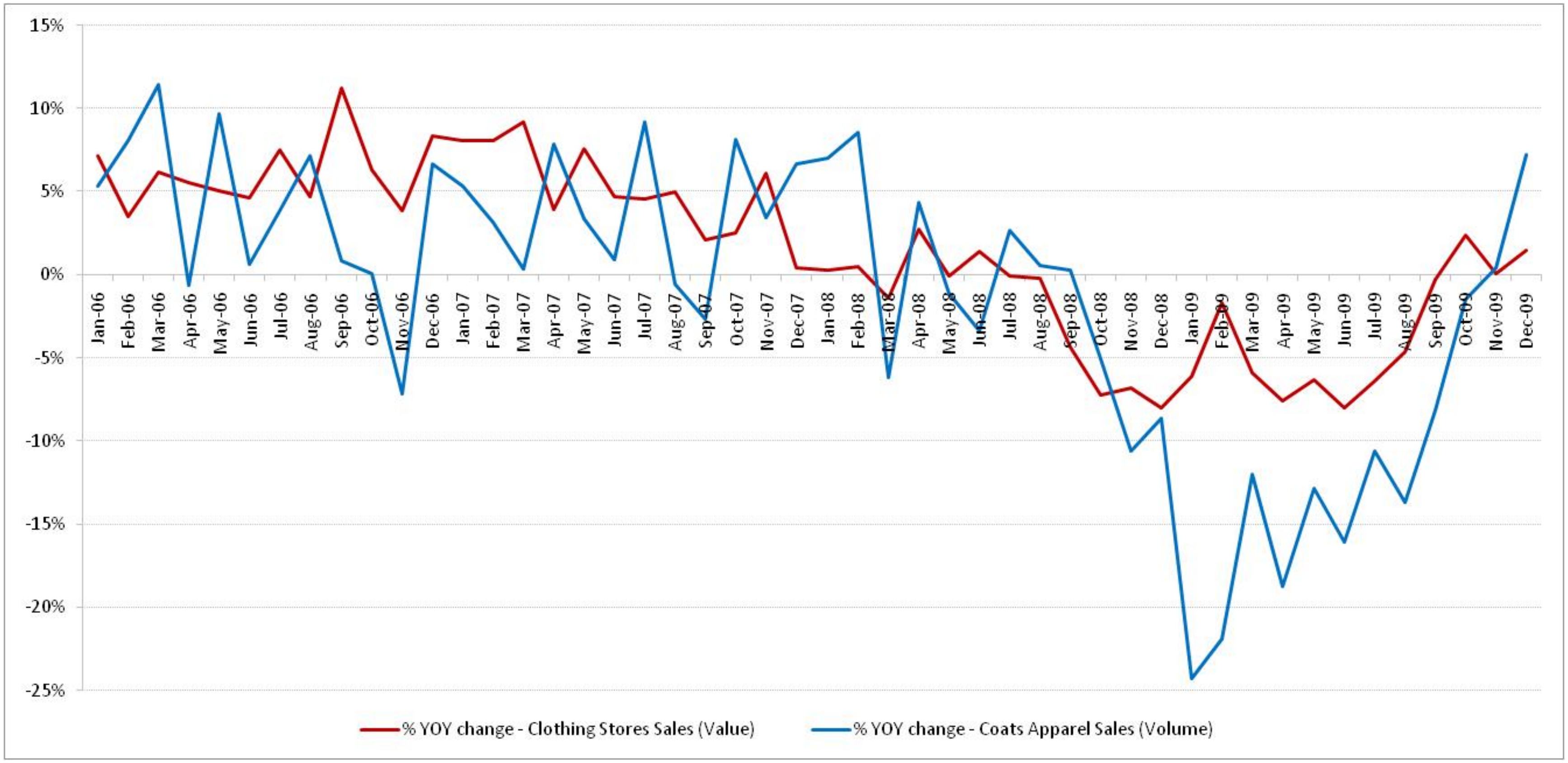
- Key driver for Coats is consumer demand for apparel in N America, W Europe and Japan
- Sales in all above markets were down on 2008
- Some improvement in US apparel sales in Q4 2009

US stores' apparel inventory ($m)



•US retail inventories at December 2009 were at historically low levels

US apparel sales



•Upward trend in US apparel sales in H2 2009, but US retail inventory levels continued to decline

Industrial margins

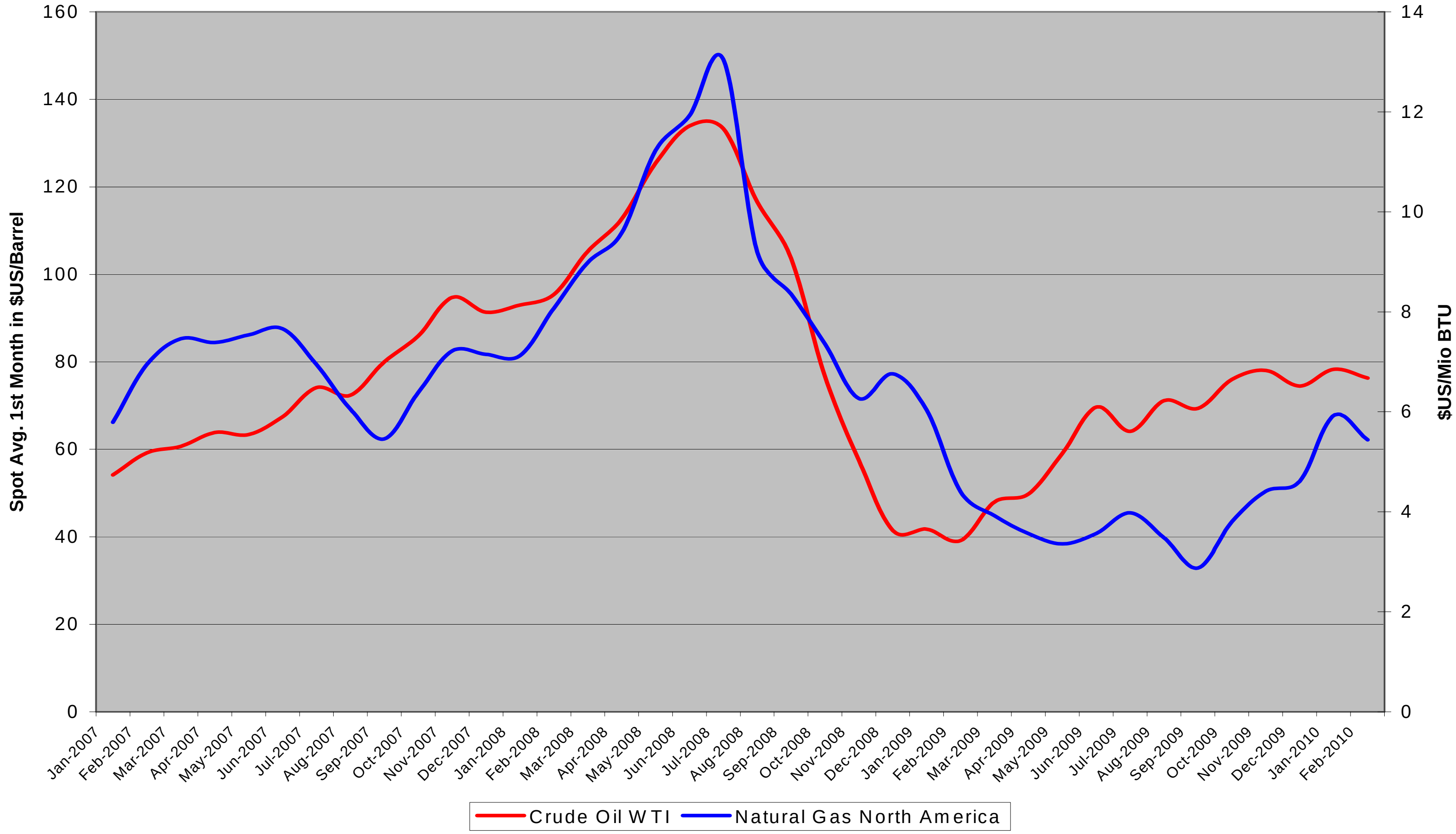
$m	H1 2009	H2 2009	FY 2009	H1 2008	H2 2008	FY 2008
Sales	421	467	888	575	496	1071
EBIT	33	38	71	69	41	110
Operating margin	7.9%	8.1%	8.0%	12.0%	8.2%	10.3%

•Cost benefits enabled the H2 2009 operating margin (8.1%) to be maintained broadly in line with H2 2008 (8.2%), notwithstanding a 6% decrease in sales

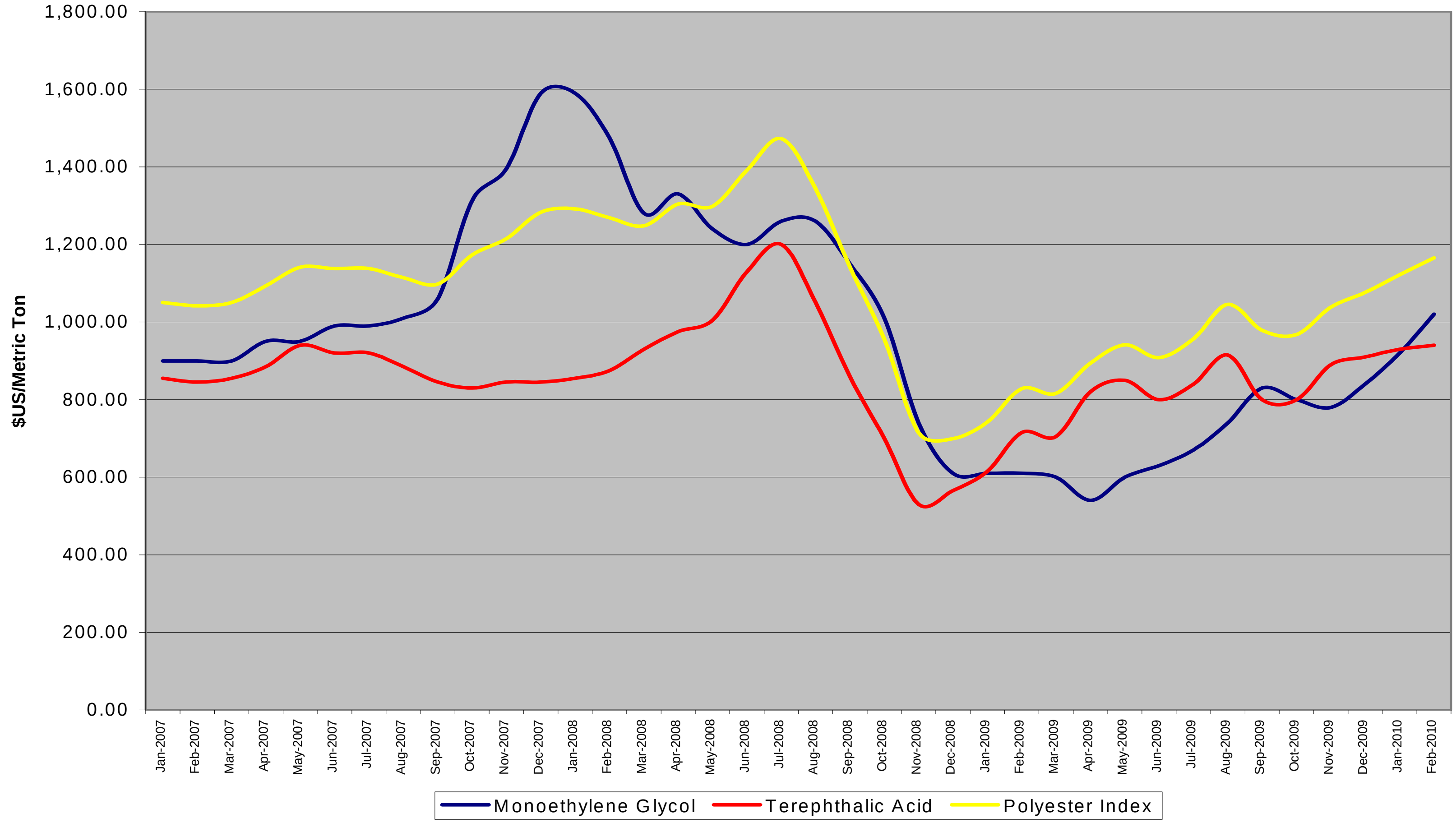
•The full year 2009 gross margin was slightly higher than in H2 2008

•The H2 2009 operating margin was 20bp up on H1 2009. SDA/Sales % improved, but raw material prices increased in H2 2009 and put pressure on gross margins. This pressure will continue in 2010 as raw material prices, which account for approximately a third of total spend, continue to rise

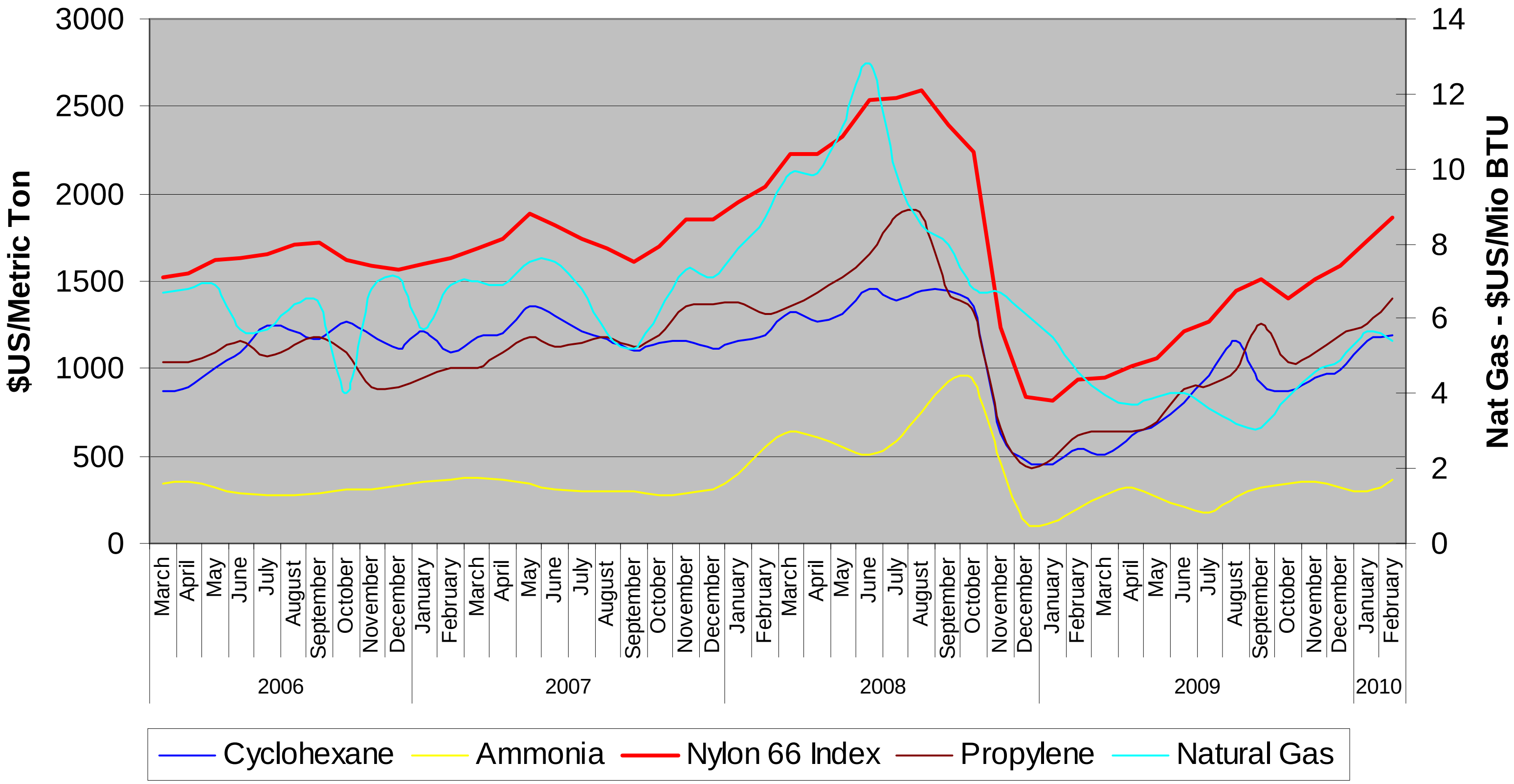
Raw material pricing – Oil & Gas



Raw material pricing - Polyester



Raw material pricing - Nylon



Industrial reorganisation

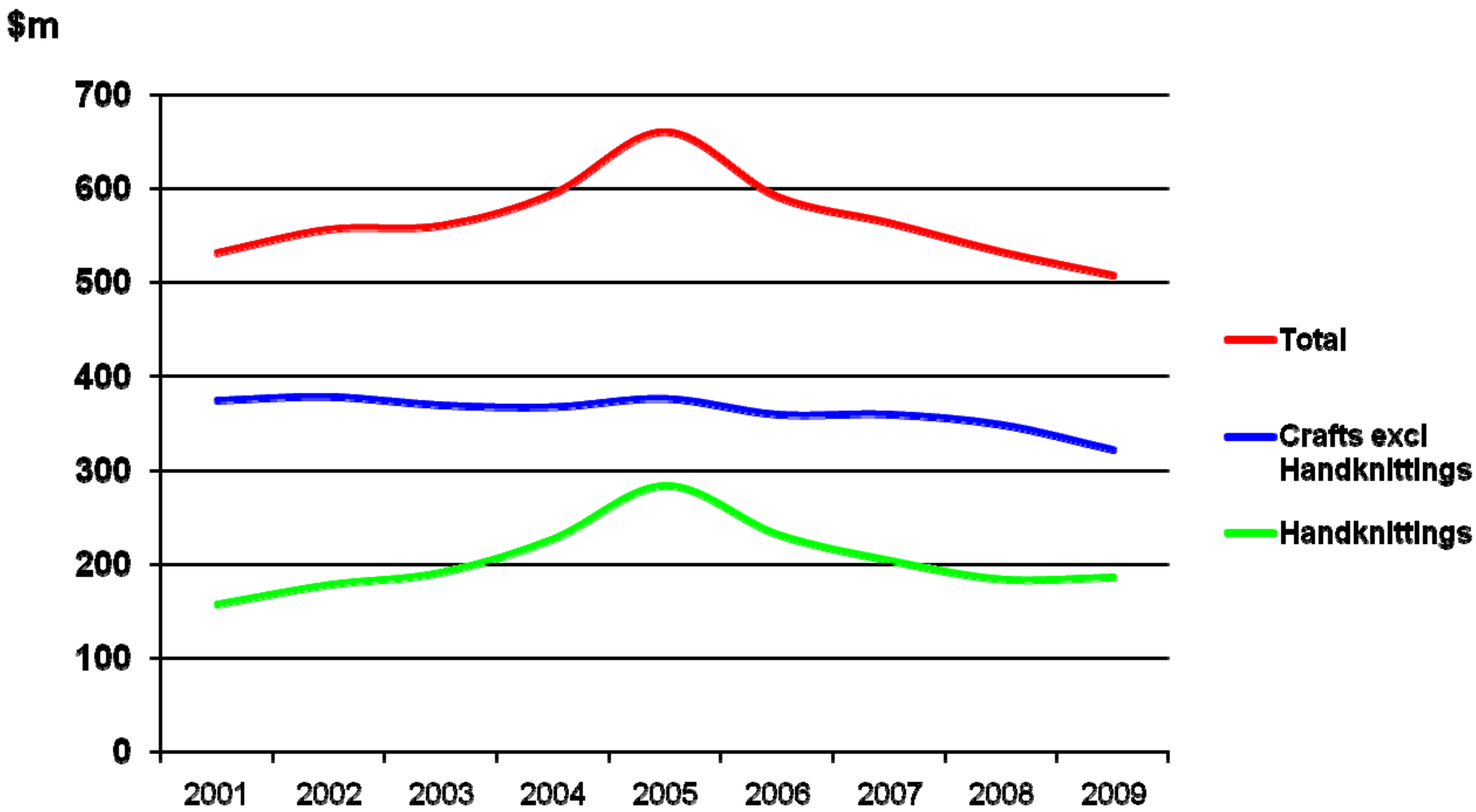
- $17m spend in 2009
- Projects in 2009 included:
  - Further consolidation of thread manufacturing in Europe, including downsizing in Germany and the closure of thread manufacturing in Poland
  - Headcount reductions in the European zips business
  - Overhead reductions in the N American business
  - Closure of Australia manufacturing

Crafts

Crafts – operating overview

- 6x size of nearest competitor
- Only global player
- Leading brands include Anchor, Red Heart, Dual Duty, Regia, Rowan and Coats Duet
- Customers include Wal-Mart, John Lewis, Kaufhof, AC Moore, Jo-Ann and Michaels
- Manufacturing at 21 sites in 16 countries

Crafts sales 2001-2009



*At constant exchange rates

Crafts sales by region

	2009 reported $m	L-F-L increase / (decrease) full year %	Actual increase / (decrease) 2009 first half %	Actual increase / (decrease) 2009 second half* %	Actual increase / (decrease) full year %
Sales					
Asia and Rest of World	64	+5%	-14%	+3%	-5%
Europe	178	-10%	-29%	-11%	-20%
Americas	278	+1%	-9%	+4%	-2%
Total sales	**520**	**-3%**	**-17%**	**-1%**	**-9%**
Pre-exceptional operating profit	**25**	**+814%**	**+481%**	**+444%**	**+452%**

*Weak comparatives – Q4 2008 saw a sharp fall in sales

•Further decline overall in already weak European retail market for crafts products and sales were down 10% from last year on a L-F-L basis, following decreases of 14% and 16% in 2008 and 2007 respectively

•N American Crafts sales have shown resilience to the recession, as consumers look for cost-effective leisure pursuits. Sales finished ahead of 2008 on a L-F-L basis, led by strong handknittings sales

•S American Crafts sales overall were impacted by recessionary pressures, but strong growth in handknittings continued

Crafts margins

$m	H1 2009	H2 2009	FY 2009	H1 2008	H2 2008	FY 2008
Sales						
Europe	83	95	178	116	107	223
Americas & ROW	159	183	342	176	175	351
Total	**242**	**278**	**520**	**292**	**282**	**574**
EBIT						
Europe	(14)	(7)	(21)	(21)	(21)	(42)
Americas & ROW	20	26	46	19	16	35
Total	**6**	**19**	**25**	**(2)**	**(5)**	**(7)**
Operating margin						
Europe	-17%	-7%	-12%	-18%	-20%	-19%
Americas & ROW	13%	14%	13%	11%	9%	10%

- Reduction in European operating losses reflects the benefits from the major restructuring of this business, which focussed on lowering the cost base, enhancing productivity and delivering a harmonised pan-European product offer. Gross margins have improved and distribution and administration costs have reduced
- Americas & ROW profits and operating margin improvement reflects a strong performance from the N American business

Crafts – Americas & ROW

- Key operations in US, Canada, Mexico, Brazil and India

- Notwithstanding underlying market decline in sewings and embroidery in the Americas, 2009 sales benefited from:
  - Resilience to the recession in N America, particularly in basic handknittings, as consumers migrated to these products
  - New product development i.e. in N America lifestyle fabrics
  - Strong growth in handknittings in S America

- Lower distribution & administration cost base than in Europe Crafts, where there is significant small scale customer spread

Europe Crafts – Background

- Long term sales decline in traditional crafts ranges, offset 2001-2006 by cyclical and fashion yarn growth in handknittings. Fashion yarns sales as a proportion of handknittings have fallen from approximately 50% in 2006 to 35% in 2009

- Needed to restructure business to transform the formerly country-based organisation, each with its own product range, into a more cost effective pan-European business with a single harmonised product offer, improved supply chains and reduced distribution and administration costs

- Major restructuring commenced in 2006

Europe Crafts – restructuring 2007 to 2009

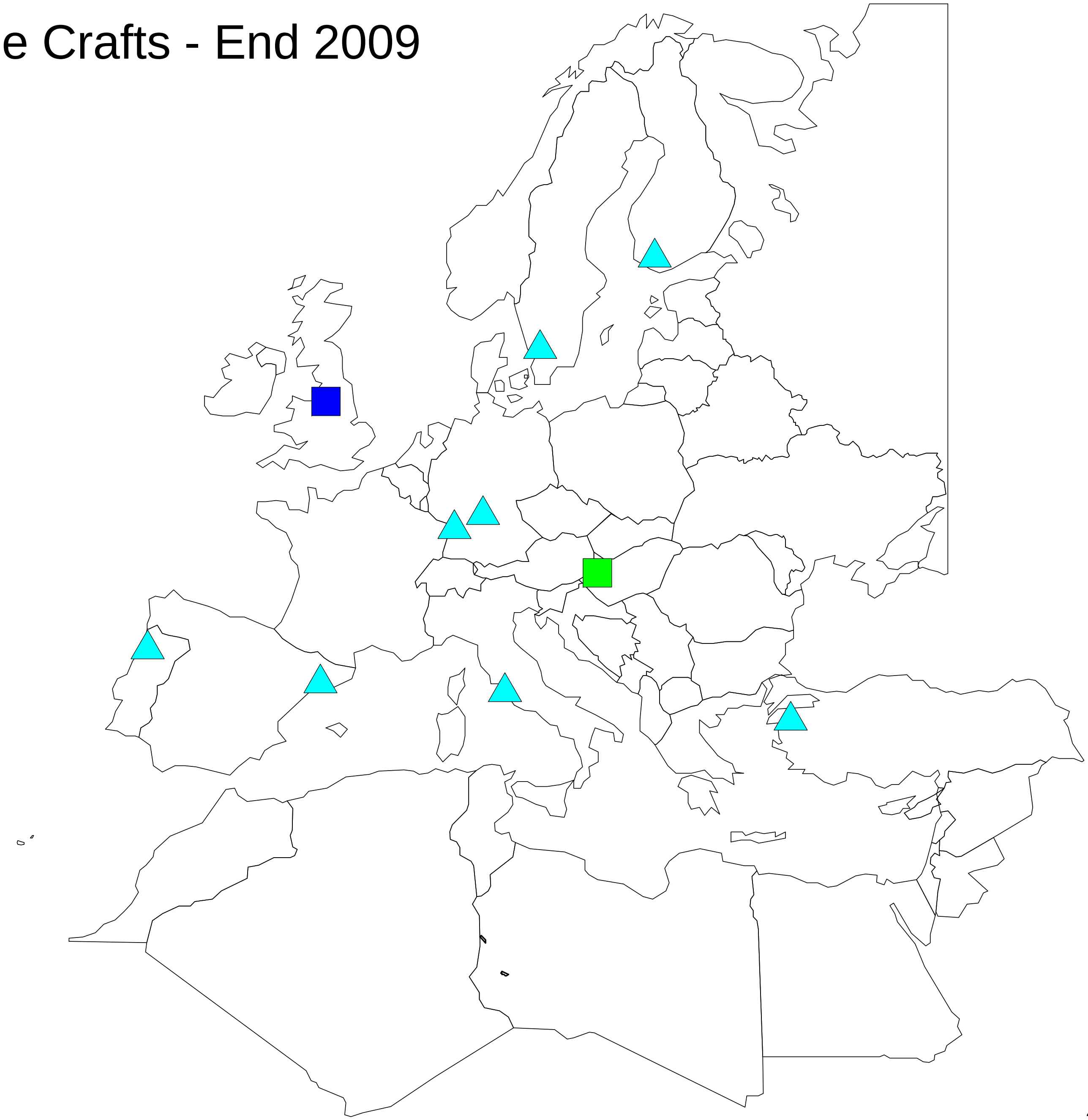
- Manufacturing consolidation
  - ➢ Manufacturing consolidation at Nagyatad, Hungary
  - ➢ Closure of Porto (Portugal), Bursa (Turkey), Lucca (Italy) and Kaposvar (Hungary)

- Distribution consolidation
  - ➢ Set up of Nagyatad and Western European distribution centres
  - ➢ Closure of UK and main Italy warehouses
  - ➢ Consolidation of Scandinavia distribution centre

- Harmonisation
  - ➢ Over 40,000 or 30% SKUs discontinued
    - Handknittings, crochet, embroidery and kits harmonisation substantially complete
    - Significant progress in sewings, with completion in 2010 following harmonisation in Iberia
    - New harmonised ranges launched in zips and haberdashery, with run down of legacy stock in 2010

- Headcount and cost base
  - ➢ 40% reduction in Europe Crafts headcount in 3 years
  - ➢ 20% reduction in distribution & administration costs in 3 years

Europe Crafts - End 2009



Crafts dyeing/finishing

Kit production

Distribution Centre

Europe Crafts – going forward

- Market
  - ➢ Growth opportunities in handknittings and UK lifestyle fabrics
  - ➢ Market for sewings, zips and haberdashery expected to become stable
  - ➢ Rate of decline slowing in crochet, embroidery and kits

- Restructuring
  - ➢ Substantially complete
    - Some further headcount reduction in 2010
    - Completion of harmonisation
  - ➢ Future restructuring charges expected to return to pre 2006 level

- 2010
  - ➢ Improvement in profitability expected as benefits continue to flow through from restructuring
  - ➢ Business is well positioned to take advantage of any improvements in market conditions

- Beyond 2010
  - ➢ Focus will be on growing sales
    - Further improvements in customer proposition and service are expected to drive profit growth through sales increases

Financial summary

Net earnings

- Net financial items
  - Interest payable reduced substantially from $38m in 2008 to $28m in 2009 as:
    - Lower average net debt – reduced from $426m in 2008 to $367m in 2009
    - Full year benefit from June 2008 refinancing
  - $5m reduction in net return on pension scheme assets and liabilities

$m	2009	2008
OP pre-exceptionals	96	103
Reorganisation costs	(49)	(49)
Other exceptionals	7	5
OP	54	59
Net financial items	(18)	(21)
Pre-tax profit	36	38
Tax	(32)	(38)
Discontinued	(4)	(4)
Minority	(5)	(4)
Net earnings	**(5)**	**(8)**

2009 Reorganisation

- **Industrial**
  - Projects in 2009 included:
    - Headcount reductions in i.e. Germany
    - Rationalisation of production capacity in E. Europe, N. America and Australia
- **Crafts**
  - Focus on European Crafts – 63% of total Group 2009 reorganisation spend
  - Projects in 2009 included:
    - Closure of manufacturing in Portugal and Turkey
    - Closure of UK and Italy warehouses
    - Sewings harmonisation in Central Europe, Spain and Belgium
    - Headcount reductions in Central Europe, Scandinavia and Spain

$m	2009	2008	2007	2006	2005
Industrial	17	25	17	41	55
Crafts*	32	24	23	10	7
Total	**49**	**49**	**40**	**51**	**62**
***Incl Europe Crafts**	**31**	**20**	**21**	**9**	**7**

Headcount

- Significant headcount reductions
  - Thread headcount down 27% since 2003
  - 57% reduction since 2003 in headcount in high cost markets
- 86% of employees are now located in low cost markets

	2009	2008	2007	2006	2005	2004	2003
High cost	2,863	3,357	3,845	4,165	4,813	5,761	6,732
Lower cost	17,740	18,724	18,583	19,616	19,900	21,807	21,670
Thread	**20,603**	**22,081**	**22,428**	**23,781**	**24,713**	**27,568**	**28,402**
Discontinued	-	-	-	-	134	1,224	1,467
Total	**20,603**	**22,081**	**22,428**	**23,781**	**24,847**	**28,792**	**29,869**

Tax

- Effective rate reflects weighting of profits to high tax rate countries and unrelieved losses in certain territories, principally in Europe
- It is expected that the Group's overall tax rate will reduce significantly as profitability in Europe improves
- Coats has significant losses available to reduce future tax payments

$m	2009	2008
Pre-tax profit	36	38
Exceptional items	42	44
Profit pre exceptionals	**78**	**82**
Total tax charge	32	38
Add back:		
Tax credit on exceptional items	1	4
Prior year tax adjustments – credit/ (charge)	3	(4)
Adjusted tax charge	**36**	**38**
Overall tax rate	*89%*	*99%*
Effective tax rate excl exceptional and prior year items	*47%*	*46%*
Cash tax paid	27	39
Cash tax paid as % of total tax charge	*84%*	*103%*

Cash flow from operations

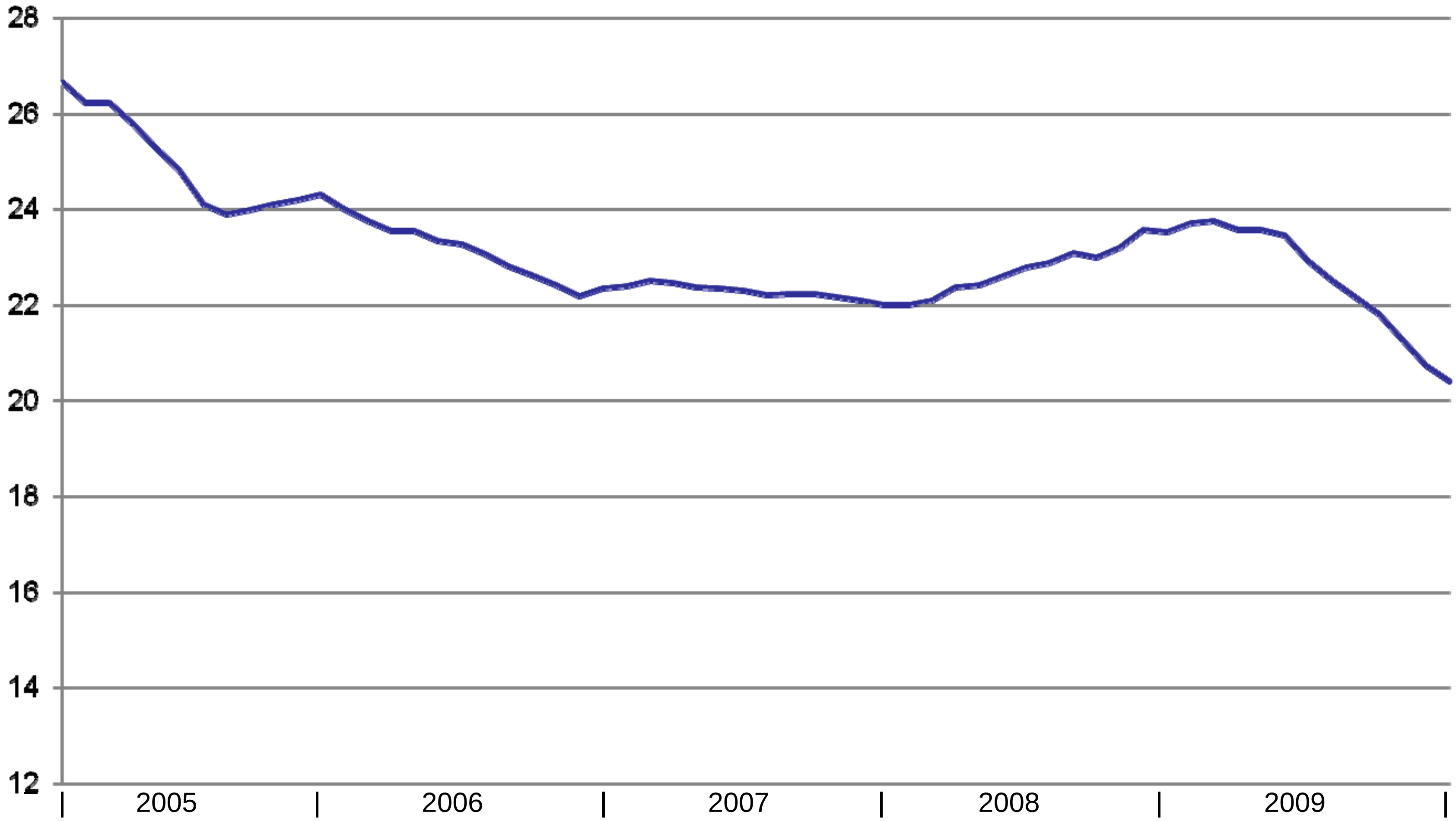
- **Net working capital**

  $48m NWC inflow reflects a $59m cash flow benefit from inventory reductions, facilitated by supply chain benefits and investment in IT systems (SAP/APO) in recent years

$m	2009	2008
OP pre-exceptionals	96	103
Depreciation	60	67
EBITDA	156	170
Net working capital	48	42
Other*	(6)	(54)
Operating cash flow pre-exceptionals	**198**	**158**

*Other in 2008 includes $28m payment of EC fines and $15m cash-settled share-based payments

Average NWC/Sales %



•Average NWC/sales ratio fell from 23% in 2008 to 20% in 2009

Net cash flow

- Key capex projects
  - Productivity improvements in Asia
    - India etc
  - Productivity improvements in Europe
    - Nagyatad Crafts
  - SAP roll out
    - Spain, Portugal, Vietnam

- Capex / depreciation
  - Capex 0.4 times (2008 – 0.8 times)

$m	2009	2008
Operating cash flow pre-exceptionals	198	158
Net interest	(25)	(43)
Cash taxes	(27)	(39)
Cash reorganisation	(47)	(50)
Property sales	15	14
Reorg net of property	*(32)*	*(36)*
Capex	*(27)*	*(54)*
Other	(1)	(4)
Net cash flow	**86**	**(18)**
Opening net external debt	(346)	(281)
Amounts paid to parent	-	(39)
Exchange / other	1	(8)
Closing net external debt	**(259)**	**(346)**

Balance sheet

- Equity shareholders' funds increased

Brought forward	**406**
Net earnings	(5)
Exchange gains	33
Actuarial losses	(4)
Interest rate swaps	4
Share capital issue	16
Other	2
Carried forward	**452**

- Exchange gains arose on the translation of operations with functional currencies other than the US dollar, reflecting US dollar depreciation during 2009
- Actuarial losses arose in respect of the Group's pension and other post-employment assets/provisions. The Group's key funded defined benefit plans showed recoverable surpluses
- Of $55m owed to GPG at end 2007, $39m was repaid in 2008 and the balance of $16m was capitalised in 2009
- Given fall in net debt and increase in shareholders' funds, net gearing reduced to 55% (2008 – 85%)

$m	2009	2008
Fixed assets	445	461
Net working capital	204	237
Net trading assets employed	**649**	**698**
Intangible assets	265	267
Provisions & other	(187)	(183)
Net operating assets	**727**	**782**
Net debt*	(259)	(359)
Net assets	**468**	**423**
Minority interest	(16)	(17)
Equity	**452**	**406**

* Including $13m owed to GPG in 2008

Outlook for Coats

Outlook

- Now that the fundamentals of a strong business are in place, focus is on the market
  - ➢ Market conditions remain difficult, but there are some signs pointing to the start of a slow recovery
    - Prices of many commodities and materials used by Coats are increasing
    - Consumer demand in some of Coats' markets is improving
    - It is expected that the worst sales declines have passed. For both the Industrial and Crafts businesses, sales shortfalls compared to 2008 reduced in H2 2009. Q4 2008 saw a sharp fall in sales and sales for Q4 2009 were flat compared to a weak Q4 2008 on a L-F-L basis (and up in US dollar terms)
  - ➢ Inventory levels in the apparel supply chain are at historically low levels and therefore some restocking is expected during the first half of 2010, to the benefit of the Industrial business
  - ➢ The Crafts market overall is expected to be relatively stable in 2010. Crafts profitability improvement in 2010 is expected, which is primarily dependent on Europe Crafts. Benefits are expected to continue to flow through from the restructuring initiatives taken, including reducing the cost base, and the business is well positioned to take advantage of any improvements in market conditions
- There are opportunities going forward from SAP driving additional manufacturing efficiencies and from new sales growth initiatives. Other than a material worsening of the macro-economic environment, raw material prices rises are the key risk.
- Period of major restructuring since Coats was acquired by GPG in 2003 has been completed
  - ➢ It is anticipated that major restructuring activity in future will be at a level significantly reduced from the last six years. Under normal trading conditions it is anticipated that capital and restructuring spend in aggregate will be no more than depreciation
- Significant benefit going forward to post tax profits from substantial reduction in reorganisation costs