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**GPG**  
GUINNESS PEAT GROUP PLC

## Realising Value

Guinness Peat Group plc

Annual Report 2012

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**Guinness Peat Group plc is an investment holding company with a diversified range of strategic interests. The Group has now embarked on a transition towards Coats becoming its principal component.**

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## 2012 Financial Summary

For the year ending 31 December 2012

### GPG

#### Portfolio divestments

**£314m**

Net proceeds 1 January 2011 to 22 February 2013 – £495m

#### Share buy-backs

**£25m**

2011 – return of capital £80m plus net cash dividend £12m

#### Middle market share price

**30.5p**

2011 – 28 5p

#### Shareholders' funds

**£434m**

2011 – £602m

#### Net asset backing per share

**27.7p**

2011 – 37 1p

### Coats

#### Revenue

**\$1,653.4m**

2011 – \$1,701 6m

#### Pre-exceptional operating profit\*

**\$127.0m**

2011 – \$143 6m

#### Operating loss

**\$(4.7)m**

2011 – \$131 6m profit

#### Free cash flow (pre EC fine)\*\*

**\$44.8m**

2011 – \$18 0m

\* Before reorganisation, impairment and other exceptional items (see note 2 to the Coats Financial Information on page 101)

\*\* Change in net debt resulting from cash flows pre EC fine

#### Reporting currency explanatory note

GPG's functional and presentation currency is GBP. Coats' functional and presentation currency is USD.

## GPG Chairman's Statement

The Company is in an unusual transitional process and this report reflects that with some unavoidable complexity. In this statement I endeavour to set out the main items which shareholders should consider. The aim is to give shareholders the necessary level of information to judge appropriately the value of their ownership of the Coats business and the value which will be returned to them from assets which have been or will be realised.

**Rob Campbell**  
Chairman

The 2012 financial year saw the advancement of the strategy to realise value for shareholders through the orderly realisation of the Group's investment portfolio and the progression of initiatives to transform GPG into the Coats business as a stand-alone, listed entity. As has been reported at various points throughout the year, good progress has been made on asset realisations with the result that GPG's balance sheet has been greatly simplified and cash reserves expanded. The Company's composition of net assets is now comprised of its 100% investment in Coats, cash resources, the GPG pension schemes and a remaining pool of five material investment portfolio assets. Further detail on each of these balance sheet categories is provided in this statement.

Divestments from the investment portfolio between 1 January and 31 December 2012 have generated cash proceeds of £314 million with a

further £37 million between the year end and 22 February 2013 (a combined total of NZ\$689 million). Sales during 2012 included ClearView Wealth, Green's General Foods, and Gosford Quarry Holdings, together with the completion of the disposal of Turners & Growers. Since the year end, the Group has successfully disposed of Capral and AVJennings. Total net proceeds since 1 January 2011 were £495 million (NZ\$971 million) as at 22 February 2013, further details are provided in the Appendix to this Statement (page 9). GPG's Parent Group unaudited cash balance as at 22 February 2013 stood at approximately £275 million (NZ\$540 million), having increased from £243 million (NZ\$477 million) at year end.

The Board continues to review how best to use these cash proceeds to pursue capital management initiatives. Following the £80 million (NZ\$157 million) return of capital and £12 million (NZ\$24 million) net cash dividend paid in 2011, a £10 million (NZ\$20 million) on-market buyback programme was announced on 3 September 2012 and this was extended on 25 October 2012 with a revised upper limit of £70 million (NZ\$137 million). As at 22 February 2013, the Company had bought back £34 million (NZ\$67 million) of shares and currently intends to continue with this initiative. As the asset realisation process progresses, further surplus cash will be returned to shareholders utilising appropriate mechanisms, including making efforts to facilitate exits for those small shareholders who are seeking an efficient route to realisation of their investment. The quantum and timing of future cash distributions will be

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'Good progress has been made on asset realisations with the result that GPG's balance sheet has been greatly simplified and cash reserves expanded.'

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determined taking into account, in particular, the Group's obligation to support the GPG pension schemes and the appropriate capital structure to be established for Coats. Further capital management initiatives will be outlined to shareholders at or prior to the forthcoming Annual General Meeting of shareholders.

It is the Board's intention that GPG will be re-launched as Coats as the various arrangements for the disposal of assets, return of value to shareholders and establishment of Coats as an independent business are completed. The current target for completion of this transition is the second half of 2013, however both external and internal events may impact on this. This Annual Report, which provides greater detail of both performance and strategy for Coats reflects progress on this transition.

The transition plan includes the following key initiatives:

- Reconstitution of the Board to ensure it has the requisite skills to develop Coats as a stand-alone, listed entity for the long term,
- A continued focus on enhancing the business performance and strategic positioning of Coats,
- Finalisation of support for the UK pension schemes,
- Determination of the optimal capital structure necessary to provide the stand-alone Coats entity with the resources and mix of debt and equity required for it to achieve its strategic objectives and optimise its capital markets positioning, and
- Evaluation and implementation of the most efficient method to return the maximum amount of excess cash to GPG shareholders, taking into consideration all of the above factors.

#### Reported (Consolidated) Financial Results

Shareholders' funds decreased by £168 million (NZ\$330 million) to £434 million (NZ\$852 million) at 31 December 2012. As a consequence, the net asset backing per share decreased during the year from 37.1p (NZ\$0.74) to 27.7p (NZ\$0.54).

#### Movements in shareholders' funds

|                                                                                                    | £m   | £m   |
|----------------------------------------------------------------------------------------------------|------|------|
| Opening shareholders' funds                                                                        |      | 602  |
| Shareholders' returns                                                                              |      |      |
| Share buyback                                                                                      |      | (25) |
| Loss for the year                                                                                  |      |      |
| EC Fine, including related interest                                                                | (76) |      |
| Other profits                                                                                      | 73   |      |
|                                                                                                    |      | (3)  |
| Movements in unrealised gains reserve                                                              |      |      |
| Gains realised in the period (recycled through the income statement)                               | (39) |      |
| Net unrealised movements on available-for-sale investments                                         | (14) |      |
| Deferred tax movement                                                                              | 3    |      |
|                                                                                                    |      | (50) |
| IAS19 adjustments                                                                                  |      |      |
| GPG schemes                                                                                        | (17) |      |
| Coats                                                                                              | (23) |      |
|                                                                                                    |      | (40) |
| Foreign currency movements (primarily amounts re-cycled through the income statement on disposals) |      | (50) |
| Total £ million                                                                                    |      | 434  |
| Total NZ\$ million                                                                                 |      | 852  |

## GPG Chairman's Statement continued

### Consolidated Income Statement

The presentation of GPG's income statement has significantly changed in 2012. While GPG remains principally an investment group and the activity of the Board and senior officers is that of managing the public company activity, supervising its investment in Coats and maximising value for shareholders through the asset realisation programme and liability management exercise, the reclassification of all remaining non-Coats fixed asset investments as held-for-sale supports the presentation of the gains and losses on investment sales and other investment activity as discontinued. GPG's net loss attributable to members in the year was £3 million (NZ\$6 million) compared to a profit of £1 million (NZ\$2 million) in 2011.

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

#### Cash at bank

Parent Group cash at bank on 31 December 2012 was £243 million (NZ\$477 million) (2011: Parent Group net debt £14 million (NZ\$27 million)). Disposals of investments during 2012 saw net cash generated from investment activity and realisations totalling £314 million (NZ\$616 million). Between 1 January 2013 and 22 February 2013 a further £37 million (NZ\$73 million) has been realised, including full realisation of investments in Capral and AVJennings. GPG's (unaudited) cash balance as at 22 February 2013 stood at approximately £275 million (NZ\$540 million).

As at 22 February 2013, the total net proceeds including dividend and other cash distributions generated since 1 January 2011 were approximately £495 million (NZ\$971 million), with circa 67% of the opening investment portfolio (excluding Coats and cash) at 1 January 2011 now realised. A schedule showing the proceeds from disposals since 1 January 2011 is set out on page 9.

#### Investment Portfolio (excluding Coats)

As at 22 February 2013, GPG's investment portfolio including former subsidiary and associated undertakings had a valuation of £216 million (NZ\$424 million), representing the mark to market value of its listed investments and the current book value of its non-listed investments. A summary of the major holdings in the current investment portfolio is outlined in the table on page 5.

The Board continues to pursue a programme to maximise the value of its investment portfolio, measured to take into account both timing and execution and operating risk. Investors will form their own view on the likely realisation value for the remaining investments but the overall rate of conversion of carrying values into cash proceeds has been encouraging to date. In particular, the recent sale of GPG's 48% shareholding in Capral has removed uncertainty in relation to one of GPG's more illiquid historical positions. The Board has completed a further review of carrying values

### Elements of reported result for the year

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

|                                                                           | £m   | 2012<br>£m | £m   | 2011<br>£m |
|---------------------------------------------------------------------------|------|------------|------|------------|
| <b>Continuing activity</b>                                                |      |            |      |            |
| Coats                                                                     |      |            |      |            |
| Profit after tax before exceptionals                                      | 34   |            | 51   |            |
| EC fine and related interest                                              | (76) |            | 1    |            |
| Other exceptional items                                                   | (28) |            | (7)  |            |
|                                                                           |      | (70)       |      | 45         |
| Parent Group                                                              |      |            |      |            |
| Overheads                                                                 | (21) |            | (34) |            |
| Foreign exchange (losses)/gains                                           | (2)  |            | 3    |            |
| Other income                                                              | 1    |            | 1    |            |
| Net interest expense                                                      | (8)  |            | (12) |            |
|                                                                           |      | (30)       |      | (42)       |
| Net (loss)/profit from continuing activity                                |      | (100)      |      | 3          |
| <b>Discontinued activities</b>                                            |      |            |      |            |
| Coats                                                                     |      | (2)        |      | (1)        |
| Parent Group subsidiary and associated undertakings and joint ventures    |      | 61         |      | (21)       |
| Investment activity                                                       |      |            |      |            |
| Gains realised in the period (recycled from the unrealised gains reserve) | 39   |            | 28   |            |
| Dividend income                                                           | 6    |            | 12   |            |
| Mark-to-market adjustments                                                | –    |            | (1)  |            |
| Impairments                                                               | (3)  |            | (10) |            |
|                                                                           |      | 42         |      | 29         |
| Other income                                                              | 1    |            |      | 1          |
| Parent Group tax charge                                                   | (5)  |            |      | (10)       |
| Net profit/(loss) from discontinued activities                            |      | 97         |      | (2)        |
| Net (loss)/profit for the year attributable to GPG shareholders £million  |      | (3)        |      | 1          |
| Total NZ\$ million                                                        |      | (6)        |      | 2          |

## Simplified Balance Sheet

GPG's financial position on a non-statutory basis is shown in the 31 December 2012 Simplified Balance Sheet below

|                                                         | 31 December 2012 |             | 31 December 2011 |              |
|---------------------------------------------------------|------------------|-------------|------------------|--------------|
|                                                         | £m               | £m          | £m               | £m           |
| Operating subsidiaries excluding Coats (book value)     |                  | –           |                  | 50           |
| Associated undertakings and joint ventures (book value) |                  | –           |                  | 212          |
| Fixed asset investments available for sale              |                  | –           |                  | 202          |
| Net held for sale assets                                |                  | 222         |                  | 66           |
| Current asset investments                               |                  | 9           |                  | 10           |
| Total investments                                       |                  | 231         |                  | 540          |
| Cash                                                    |                  | 243         |                  | 200          |
| GPG assets, excluding Coats                             |                  | 474         |                  | 740          |
| Capital Notes                                           |                  | –           |                  | (214)        |
| GPG pension schemes                                     |                  | (74)        |                  | (64)         |
| Other sundry Parent Group net liabilities               |                  | (14)        |                  | (10)         |
|                                                         |                  | 386         |                  | 452          |
| Coats                                                   |                  |             |                  |              |
| Other net assets                                        | 481              |             | 504              |              |
| Net debt                                                | (226)            |             | (153)            |              |
| Employee benefit obligations                            | (207)            |             | (201)            |              |
|                                                         |                  | 48          |                  | 150          |
| <b>Shareholders' Funds £ million</b>                    |                  | <b>434</b>  |                  | <b>602</b>   |
| <b>Shareholders' Funds NZ\$ million</b>                 |                  | <b>852</b>  |                  | <b>1,181</b> |
| <b>NAV/share (p)</b>                                    |                  | <b>27.7</b> |                  | <b>37.1</b>  |
| <b>NAV/share (NZ\$)</b>                                 |                  | <b>54.4</b> |                  | <b>73.9</b>  |

## Investments (excluding Coats)

|                                 | Shareholding | Market Value (£m) |
|---------------------------------|--------------|-------------------|
| <b>Listed Investments*</b>      |              |                   |
| Tower Limited                   | 33.6%        | 93                |
| Ridley Corporation Limited      | 22.1%        | 49                |
| CIC Australia Limited           | 72.8%        | 37                |
| PrimeAg Australia Limited       | 11.6%        | 25                |
| Tandou Limited **               | 28.4%        | 9                 |
| <b>Non-listed Investments**</b> |              | <b>3</b>          |
| <b>Total</b>                    |              | <b>216</b>        |

\* Listed investments at market value translated at exchange rate ruling on 22 February 2013

\*\* Tandou and non-listed investments, which includes GPG's investment in Tourism Property Investment Group (10.0%) and a freehold site formerly owned by Gosford Quarry Holdings are shown at book value

of its investment assets and has determined that net impairments totalling £3 million (NZ\$6 million) should be made including the reversal of previous impairments relating to Capral of £10 million (NZ\$20 million). These net impairments are reflected in the full year results.

In relation to GPG's remaining investment portfolio, it is not appropriate to discuss publicly the range of initiatives that continue to be implemented in order to maximise and ultimately unlock value. Nevertheless, a number of work in progress items relevant to some of the remaining investments are noteworthy:

- Tower is GPG's most significant remaining investment, wherein we remain the single largest shareholder (33.6%). Tower confirmed on 19 February 2013 that, following the sale of its Health business, it had obtained High Court orders in relation to the proposed return of approximately NZ\$120 million of capital to shareholders pursuant to a scheme of arrangement. GPG's share of that return, which is in the form of a pro-rata cancellation of shares, is NZ\$40 million (£21 million). The proposed scheme of arrangement is due to be voted on by members of that company on 21 March 2013<sup>11</sup>. Tower's strategic review continues and the company's stated ambition to become a more focused insurance business has GPG's full support. Another step towards achieving this strategy occurred on 26 February 2013, wherein Tower announced the sale of its Investments business for NZ\$79 million. Subject to completion of this transaction, GPG expects that Tower will have the ability to implement additional capital management initiatives over and above the current capital return outlined here.

- Ridley Corporation is expected to complete the sale of its Salt division at the end of February 2013<sup>12</sup>. GPG believes this transaction will more effectively position the company as a focused agri-business within the Australian market and consequently enhance its investor appeal.

- On 15 February 2013, PrimeAg Australia announced that it had agreed to sell approximately 60% of its portfolio of land and water entitlements for some A\$125 million in cash. Additionally, and separate from the recent sale, the PrimeAg board has resolved to distribute available excess cash which, based on market expectations, is understood to be in the order of a further A\$125 million. However this is subject to confirmation by the company. PrimeAg anticipates an initial distribution, post shareholder approval, in mid April 2013. A subsequent distribution relating to the recent land and water portfolio sale is expected to occur in early August 2013. These anticipated distributions are in addition to the A\$0.15 per share distributed during the second half of 2012.

- On 22 February 2013, GPG agreed to sell its entire shareholding in Tandou to a number of unrelated parties. Proceeds from this transaction are expected to total A\$15 million.

GPG has significant capital tax losses both in the UK and Australia. To the extent that GPG generates capital gains from the balance of its realisation programme, it is anticipated that the proceeds can be returned to the UK without significant tax leakage.

### Coats

Coats' overall result for 2012 was a loss attributable to GPG of £72 million (US\$113 million) (2011 profit £44 million, US\$71 million). This loss included the impact of the final outcome of the European Commission fine (£76 million charge) and other exceptional costs after tax of £28 million. Hence, Coats' net profit after tax attributable to GPG, excluding exceptional items, totalled £32 million (2011 £50 million).

Coats' sales of US\$1,653 million (£1,043 million) were 3% below the prior year. The challenges faced by Coats were communicated to shareholders at the half year. However, the full year results do reflect the anticipated recovery in the second half with sales on a like-for-like basis increasing in both the Industrial (2%) and Crafts (8%) businesses. For 2012, sales per working day at constant currencies showed a year-on-year increase of 2% for the Coats Group.

The business achieved an increased level of cash conversion, with free cash flow (excluding the US\$175 million European Commission fine payment) increasing from US\$18 million (£11 million) to US\$45 million (£28 million). This was after reorganisation spend of US\$21 million (£13 million) (2011 US\$14 million (£9 million)) and capital spend of 0.7 times (2011 0.9 times) depreciation.

As previously announced, Coats has now embarked on a further rationalisation of European Crafts and is taking the actions necessary to vacate freehold properties which are not delivering the return on capital to justify their retention. Over the course of this project it is expected that funds generated from the disposal of these properties will cover the costs arising from the accelerated rationalisation.

Prospects for the underlying Coats business for 2013 and beyond are good, with nascent signs of recovering confidence in world markets being a positive indicator for the drivers of demand for Coats.

The book value of Coats in the GPG consolidated balance sheet at 31 December 2012 was £48 million (US\$78 million). This represents a decrease of £102 million from the balance reported at the previous year end. The movement during the year included *inter alia* the charge relating to the final resolution of the European Commission fine (£76 million), other exceptional costs after tax (primarily reorganisation projects) of £28 million, foreign exchange losses taken directly to reserves of £22 million and actuarial losses of £23 million, partially offset by the attributable profit after tax before exceptional items of £32 million.

The foreign currency losses arose mainly as a result of the strengthening of the US dollar against the currencies in which Coats' assets are denominated. The funding position of the Coats UK Pension Plan is specifically dealt with in more detail under 'Pensions'.

A full review of the year for Coats and its financial position is included in the Coats Business Review and Coats Financial Information sections of this report.

### Capital notes

Two issues of capital notes remained outstanding at the commencement of 2012. Notice of early repayment of the notes with an initial election date of 15 December 2013 was given in September 2011 and this issue, with a principal value of NZ\$77 million (£39 million), was purchased on 15 March 2012. The remaining capital notes having an initial election date of 15 November 2012 and a principal value of NZ\$350 million (£178 million) were repurchased on that date. There are, therefore, now no outstanding capital notes.

### Pensions

The carrying values of the Coats UK Pension Plan ('Coats Plan'), Coats' other employee benefit obligations and the two GPG pension schemes Brunel and Staveley ('the GPG Pension Schemes') on an IAS19 financial reporting basis (which, irrespective of assets held, requires the liabilities to be discounted using the yield on high quality corporate bonds, which in the UK is generally taken to be those with a AA credit rating) are summarised in the table to the right.

As previously acknowledged, these accounting outcomes have a significant impact on the balance sheet of GPG. While the accounting presentation has its place, it only reflects the particular circumstances at the reporting date. Discount rate changes and temporary movements in markets can give rise to large fluctuations in scheme accounting surpluses and deficits and the measurement is based on very prescriptive rules. In judging the commercial impact of the schemes on the Group, the Board places greater emphasis on the cash contributions required by the respective funding arrangements. Changes to these contribution plans are generally driven by the triennial valuation process. The current status of the funding arrangements for GPG's three UK schemes is as follows:

- as announced in July 2012, the April 2011 funding valuation of the Staveley scheme was agreed during the year and the sponsor company is now making regular contributions. The deficit on the funding basis was £20 million and, taking into account the scheme actuary's assumptions on future investment returns, this is in the process of being made good. A one-off payment was made in July 2012 of £5 million from which point monthly contributions of £0.1 million over eight years commenced,
- negotiations over the Coats Plan valuation as at April 2012 continue and management expects these to be concluded during the first half of 2013.

The last valuation of the Coats Plan (as at April 2009) resulted in a funding deficit of £101 million (NZ\$198 million) which Coats agreed to make good by contributions of £7 million (NZ\$14 million) per annum over a period of ten years. It is anticipated, when the 2012 valuation is finalised, that contributions in respect of past service will increase by approximately £7 million per annum to some £14 million per annum,

- no contributions are currently being made to the Brunel pension scheme and the next triennial valuation (effective date 31 March 2013) is due to be completed by 30 June 2014. Given the Company's current value realisation programme and a likely funding deficit at 31 March 2013, the Trustee and the Company are engaged in discussions regarding the continuing form of support for that scheme.

The accounting standard dealing with employee benefits (IAS19) has been revised and that revised standard will be adopted by GPG from 1 January 2013. This will have a significant impact on the consolidated income statement from 2013 onwards, although there will be no impact on the Group's net defined benefit obligation nor cash flow. The key impacts on the consolidated income statement will be from the replacement of expected returns on plan assets and liabilities with an interest charge derived from the prior year discount rate and the net defined benefit asset or liability at the beginning of the current year and the recognition in operating profit of pension scheme administration costs paid out of plan assets. Had the amended IAS19 been applied in 2012, the estimated full year impact would have been a reduction in operating profit of £5 million and an increase in net interest costs of £22 million. This would have led to a corresponding improvement of £27 million in the actuarial loss arising within reserves. The additional charges primarily relate to the UK pension schemes and, consequently, the associated tax relief recognised in the income statement would be minimal.

The Board continues to develop its plans for how to manage the obligations to the GPG Pension Schemes in the context of the GPG value realisation strategy and the re-launch of Coats. The agreement of the Staveley funding valuation, including the backing of some £70 million in net assets as at 31 December 2012, was a positive step in this process. Furthermore, based on advice received, the Board believes that the Group's obligations to the Brunel scheme are limited to the covenant directly provided by its sponsor company, this represents £54 million. Thus, the current support provisions provide the Trustees of the GPG Pension Schemes with a contingent claim over net assets of approximately £124 million (NZ\$243 million).

As reported previously, the Board intends that the support currently provided by GPG to back the GPG Pension Schemes should be maintained. As a result, it is expected that investment portfolio realisation proceeds equivalent to £124 million

#### IAS19 deficit

|                                              |            |            |
|----------------------------------------------|------------|------------|
| Coats Plan                                   | 161        | 161        |
| Other Coats net employee benefit obligations | 46         | 40         |
| Total Coats net employee obligations         | 207        | 201        |
| Brunel                                       | 38         | 31         |
| Staveley                                     | 36         | 34         |
| <b>Total £ million</b>                       | <b>281</b> | <b>266</b> |
| Total NZ\$ million                           | 551        | 522        |

(NZ\$243 million) will be required to be retained by the GPG group and will not be available for distribution to shareholders.

Further details in respect of Coats' non-UK employee benefit obligations are provided in the attached report from Coats.

#### Overhead costs

Net operating expenses arising in the 2012 financial year of £21 million for the Parent Group are further analysed as per the table below.

The other staff incentives represent the cost of staff retention and reward programmes and future redundancies. As previously reported, these costs are in part dependent on the outcome of the investment portfolio realisation programme. The estimated cost is being spread over the period the related services are being provided. Following the announcement in October 2012 of the transition to New Coats, work streams have been established to ensure the efficient rundown of GPG's corporate offices and the migration of administration responsibility to the Coats management team. Later in 2013, this is likely to involve a merger of all activities with those of Coats. There were, at the year end, 15 permanent members of staff other than Directors within the Parent Group: three investment professionals, nine covering finance, company secretarial and administration, and three support staff.

#### Overhead costs

|                                                                               | 2012<br>£m | 2011<br>£m |
|-------------------------------------------------------------------------------|------------|------------|
| One-off advisors' fees relating to the strategic review and return of capital | –          | 9          |
| Cost of redundancies arising in the year                                      | 1          | 2          |
| Other staff incentives                                                        | 6          | 6          |
| Other operating costs                                                         |            |            |
| Staff costs                                                                   | 5          | 7          |
| Non-Executive Directors' fees                                                 | 1          | 1          |
| Legal & professional fees                                                     | 3          | 4          |
| Bank facility fees                                                            | 1          | 2          |
| Property costs                                                                | 2          | 2          |
| Legacy costs                                                                  | 1          | –          |
| Other                                                                         | 1          | 2          |
| <b>Total £ million</b>                                                        | <b>21</b>  | <b>35</b>  |
| Total NZ\$ million                                                            | 41         | 69         |

## GPG Chairman's Statement continued

### Capital management

All decisions relating to capital management are taken by the Board with the intention of achieving the best overall value for shareholders. The Group has been running an on-market share buyback programme since September 2012. As at 22 February 2013, shares with a market value of £34 million (NZ\$67 million) had been acquired leaving up to a further £36 million (NZ\$71 million) to be purchased, subject to shareholder appetite. There are no plans for a final or interim dividend at this time. Further capital management initiatives will be outlined to shareholders at or prior to the forthcoming Annual General Meeting of shareholders.

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

|       | 31 December<br>2012<br>£m | 31 December<br>2011<br>£m |
|-------|---------------------------|---------------------------|
| GBP   | 114                       | 73                        |
| AUD   | 26                        | 17                        |
| NZD   | 103                       | 109                       |
| Other | –                         | 1                         |
|       | <b>243</b>                | <b>200</b>                |

The policy of migrating surplus funds into NZD is being continued. The slight fall in the absolute level of NZD funds during 2012 is in part due to the purchase of the two tranches of outstanding capital notes and the cost of servicing them prior to acquisition.

### Board changes and Corporate Governance

On 19 January 2012, Scott Malcolm was appointed an independent Non-Executive Director of the Company. The Board comprises five Non-Executive Directors, of whom three are considered to be independent<sup>††††</sup>. This composition is in line with the UK Corporate Governance Code issued by the UK Financial Reporting Council and provides a board of appropriate calibre and experience to pursue the current strategy, while at the same time providing a suitable corporate governance framework. In addition, the Board has the appropriate committee structures and procedures, including a board performance review. The constitution of the Board is currently under review and changes are planned as part of the Coats transition.

### Annual General Meeting

The Annual General Meeting is intended to be held on Thursday, 23 May 2013 in Auckland. Further details of the exact location and timing of the meeting will be provided in the Notice of Meeting which GPG intends to send to shareholders in April 2013.

I should like to thank the management team and staff of GPG and Coats, who have all contributed to GPG's achievements in 2012, and to their commitment to enhancing value for all GPG shareholders.

### Rob Campbell

Chairman

27 February 2013

Note: All amounts stated in NZ\$ are for illustrative purposes only, based on the NZ\$ : GBP exchange rate on 31 December 2012, NZ\$1.9621 : £1.00.

<sup>†</sup> On 19 March 2013 the Company announced completion of the on-market buyback programme, having bought back an aggregate of 217,580,785 ordinary shares for an aggregate value of £69,976,714.

<sup>††</sup> At Tower Ltd's Annual Meeting of Shareholders held on 21 March 2013 the scheme of arrangement relating to the return of capital to Tower's shareholders was approved.

<sup>†††</sup> The sale by Ridley Corporation of its Salt division was completed at the end of February 2013.

<sup>††††</sup> On 6 March 2013 Waldemar Szlezak was appointed a Non-Executive Director of the Company following which the Board is now comprised of six Non-Executive Directors. A brief biography of Mr Szlezak appears on page 22 of the Annual Report.

**APPENDIX****Net Proceeds from portfolio divestments from 1 January 2011 to 22 February 2013**

|                                    | £m        | NZ\$m*     |
|------------------------------------|-----------|------------|
| <b>2011 Disposals</b>              |           |            |
| CSR                                | 43        | 84         |
| Chrysalis                          | 15        | 29         |
| Pertama                            | 13        | 26         |
| Alinta Energy (now Redbank Energy) | 11        | 21         |
| Marshalls                          | 6         | 12         |
| Maryborough SF                     | 6         | 12         |
| NIB Holdings                       | 5         | 9          |
|                                    | <u>99</u> | <u>193</u> |

Disposals less than £5 million, dividend receipts and  
other investment activity

|                               |            |            |
|-------------------------------|------------|------------|
|                               | 45         | 89         |
| Total generated in the period | <u>144</u> | <u>282</u> |

|                        | £m         | NZ\$m*     |
|------------------------|------------|------------|
| <b>2012 Disposals</b>  |            |            |
| ClearView Wealth       | 75         | 147        |
| T&G                    | 72         | 141        |
| Youngs                 | 53         | 104        |
| Green's General Foods  | 30         | 59         |
| Tourism Asset Holdings | 12         | 24         |
| CSR                    | 10         | 19         |
| Gosford                | 10         | 19         |
| eServglobal            | 9          | 18         |
| MetalsX                | 7          | 14         |
| Newbury Racecourse     | 6          | 12         |
| Thwaites               | 5          | 10         |
|                        | <u>289</u> | <u>567</u> |

Disposals less than £5 million, dividend receipts and  
other investment activity

|                               |            |            |
|-------------------------------|------------|------------|
|                               | 25         | 49         |
| Total generated in the period | <u>314</u> | <u>616</u> |

|                       | £m        | NZ\$m*    |
|-----------------------|-----------|-----------|
| <b>2013 Disposals</b> |           |           |
| Capral                | 27        | 53        |
| AVJennings            | 5         | 10        |
|                       | <u>32</u> | <u>63</u> |

Disposals less than £5 million and dividend receipts

|                               |           |           |
|-------------------------------|-----------|-----------|
|                               | 5         | 10        |
| Total generated in the period | <u>37</u> | <u>73</u> |

|                    |            |            |
|--------------------|------------|------------|
| <b>Grand total</b> | <u>495</u> | <u>971</u> |
|--------------------|------------|------------|

\*All amounts stated in NZ\$ are for illustrative purposes only, based on the NZ\$ / GBP exchange rates on  
31 December 2012 NZ\$1 9621 £1 00

# Coats Business Review

## Summary and highlights

|                                                     | 2012                                                  |                                               |                              | 2011                                                  |                                               |                              |
|-----------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|------------------------------|-------------------------------------------------------|-----------------------------------------------|------------------------------|
|                                                     | Before<br>exceptional<br>items<br>Unaudited*<br>US\$m | Exceptional<br>items**<br>Unaudited*<br>US\$m | Total<br>Unaudited*<br>US\$m | Before<br>exceptional<br>items<br>Unaudited*<br>US\$m | Exceptional<br>items**<br>Unaudited*<br>US\$m | Total<br>Unaudited*<br>US\$m |
| Revenue                                             | 1,653.4                                               |                                               | 1,653.4                      | 1,701.6                                               |                                               | 1,701.6                      |
| Operating profit/(loss)                             | 127.0                                                 | (131.7)                                       | (4.7)                        | 143.6                                                 | (12.0)                                        | 131.6                        |
| Profit/(loss) before taxation                       | 111.3                                                 | (167.5)                                       | (56.2)                       | 136.2                                                 | (12.0)                                        | 124.2                        |
| Net profit/(loss) attributable to GPG               | 50.6                                                  | (163.6)                                       | (113.0)                      | 81.1                                                  | (9.9)                                         | 71.2                         |
| Net cash inflow from normal operating activities*** | 171.8                                                 |                                               |                              | 150.3                                                 |                                               |                              |

\* See note 1 to the Coats Financial Information – basis of preparation on page 100

\*\* Before reorganisation impairment and other exceptional items (see note 2 to the Coats Financial Information on page 101)

\*\*\* See note 6 to the Coats Financial Information on page 103

All figures included in this Business Review are at actual exchange rates unless otherwise stated

## Chief Executive's Review

I am pleased to report that Coats' underlying results for the year are in line with market expectations and demonstrate encouraging progress in strengthening our foundations for future growth. This robust performance was underpinned by Coats' position as a global market leader with presence in a broad range of end markets and geographies.

### Paul Forman

Coats Group Chief Executive

#### Overview

Full year sales of \$1,653.4 million (2011 \$1,701.6 million) and a pre-exceptional operating profit of \$127.0 million (2011 \$143.6 million) were achieved in 2012 despite, as anticipated, market conditions remaining challenging. At constant exchange rates, which give the best view of underlying performance, full year sales increased by 2%. After a weaker first half driven by customer destocking and raw material cost increases, the second half saw improvement versus both the second half of 2011 and the first half of 2012. Sales in the second half increased by 4% year-on-year at constant exchange rates. Second half pre-exceptional operating profit showed a marked improvement on the prior year with growth of 16% at constant exchange rates and operating margins rising from 7.2% to 8.0%. Post exceptional items, the operating loss for the year was \$4.7 million (2011 \$131.6 million profit).

The business achieved an increased level of cash conversion, with the net cash inflow from normal operating activities increasing to \$171.8 million (2011 \$150.3 million) and free cash flow (excluding the \$174.8 million European

Commission fine payment) increasing from \$18.0 million to \$44.8 million. This was after reorganisation spend of \$21.4 million (2011 \$13.7 million) and capital spend of 0.7 times (2011 0.9 times) depreciation. Year end net working capital as a percentage of sales reduced from 17.6% to 17.1% at constant exchange rates.

Attributable profit for the year, however, was significantly impacted by \$120.4 million of exceptional operating and finance charges (in excess of the provision held at 31 December 2011) in respect of the European Commission fine, following the European General Court's decision in June 2012, and accelerated reorganisation costs of \$24 million.

#### Operating results

Despite a stronger second half, sales for the year at actual exchange rates were 3% down on 2011 and pre-exceptional operating profit was 12% down. Year-on-year comparisons were negatively impacted by the very strong first half for the Coats Group in 2011 and currency fluctuations also had an adverse impact. However, in the second half of the year, the year-on-year sales growth of 4% and the pre-exceptional operating profit increase of 16% (\$9.3 million) at constant exchange rates demonstrate an improving performance, albeit against a softer 2011 comparable period.

Sales per working day (at constant exchange rates) for the Coats Group were 2% up on 2011. Sales per working day for the Industrial and Crafts Divisions were up 1% and 7% respectively.

Post exceptional items, the operating loss for the year was \$4.7 million (2011 \$131.6 million profit).

## Operating results table

|                                       | Full Year<br>2012<br>reported<br>Unaudited<br>\$m | Full Year<br>2011<br>reported<br>Unaudited<br>\$m | Full year<br>like-for-like*<br>Unaudited<br>\$m | Reported increase/(decrease)   |                                 |                                  | Like-for-like increase/(decrease) |                                 |                                  |
|---------------------------------------|---------------------------------------------------|---------------------------------------------------|-------------------------------------------------|--------------------------------|---------------------------------|----------------------------------|-----------------------------------|---------------------------------|----------------------------------|
|                                       |                                                   |                                                   |                                                 | Full<br>year<br>Unaudited<br>% | First<br>half<br>Unaudited<br>% | Second<br>half<br>Unaudited<br>% | Full<br>year<br>Unaudited<br>%    | First<br>half<br>Unaudited<br>% | Second<br>half<br>Unaudited<br>% |
| <b>Sales</b>                          | <b>1,653.4</b>                                    | <b>1,701.6</b>                                    | <b>1,618.2</b>                                  | <b>-3%</b>                     | <b>-5%</b>                      | <b>-1%</b>                       | <b>+2%</b>                        | <b>+1%</b>                      | <b>+4%</b>                       |
| Pre-exceptional<br>operating profit** | 127.0                                             | 143.6                                             | 136.0                                           | -12%                           | -28%                            | +12%                             | -7%                               | -23%                            | +16%                             |
| <b>Operating margin**</b>             | <b>7.7%</b>                                       | <b>8.4%</b>                                       | <b>8.4%</b>                                     | <b>-70bps</b>                  | <b>-240bps</b>                  | <b>+80bps</b>                    | <b>-70bps</b>                     | <b>-230bps</b>                  | <b>+80bps</b>                    |

\* 2011 like-for-like restates 2011 figures at 2012 exchange rates

\*\* Before reorganisation impairment, and other exceptional items (see note 2 to the Coats Financial Information on page 101)

**Industrial**

Industrial divisional sales are largely driven by underlying demand for clothing and footwear in developed economies as well as changes in inventory levels in the related retail supply chains. Demand over the year has been impacted by uncertain economic conditions, particularly in Europe, and by tight inventory control by clothing and footwear retailers. In addition, Industrial sales in Latin America were impacted by a deteriorating economic situation in the key Brazilian market, with local apparel and footwear production being replaced by imports. The division operates across a wide range of markets and, as a result, currency fluctuations can have a significant impact on sales. Sales for the year fell by 4% at actual exchange rates, reflecting the strength of the US dollar against currencies such as the Brazilian real, the Indian rupee and the euro, but grew by 1% at constant exchange rates. Although profitability for the full year for the division was 6% down on 2011 at constant exchange rates, profitability on that basis for the second half was 14% up year-on-year.

**Crafts**

Crafts divisional sales benefitted from expanded shelf space won with large retail customers and strong growth in handknittings. Divisional sales increased by 1% at actual exchange rates and by 6% at constant exchange rates. However, there was pressure on margins across the division both from changes in product mix and the impact of raw material input costs incurred in the second half of 2011 flowing through into the income statement in the first half of 2012. Profitability for the Crafts Division for the full year was 10% down on 2011 at constant exchange rates, but improved 35% year-on-year in the second half due to the effect of price increases implemented across both regions. In Europe, the Middle East and Africa ('EMEA'), although the consumer environment was weak overall, sales were encouragingly up 5% on a like-for-like basis after years of decline. At actual exchange rates, EMEA Crafts sales of \$167.7 million were \$3.1 million down on 2011 but operating losses improved, being \$4.4 million lower than the prior year.

*Further details on Industrial and Crafts performance on a constant exchange rate basis are included on pages 17 and 18*

**Investment**

Over the course of 2012, investment continued to be made to support the growth of the business and to improve its operational performance.

Investment in new plant and IT systems amounted to \$38.8 million (2011: \$50.5 million), representing 0.7 times (2011: 0.9 times) depreciation (including computer software amortisation) of \$52.8 million (2011: \$57.0 million). This capital expenditure was focused on the Industrial Division, including capacity and productivity improvements in Asia, and supporting growth initiatives across Coats, including investment to support Coats' digital strategy.

Reorganisation costs of \$39.9 million (2011: \$14.6 million) were incurred during the year, of which approximately \$24 million related to the accelerated programme to bring forward projects originally planned for future years. The focus of reorganisation in 2012 has been on:

- restructuring low operating margin Crafts business in EMEA to reduce fixed costs and drive improved profitability, and
- rationalisation of the EMEA zips business to enhance operational efficiency.

The further refocusing of EMEA Crafts is expected to have an adverse effect on turnover due to the elimination of unprofitable areas of activity, but should support improvements to operating performance.

**Prospects**

The global economy is likely to remain mixed and uncertain during 2013. While some modest economic growth can be expected in North America and growth in Asian markets should remain relatively strong, activity in EMEA is likely to be subdued. It is expected that raw material costs will continue to trend marginally upwards, and payroll and other inflationary pressures will be a feature in many of the countries in which Coats operates.

Year-on-year improvement in Industrial sales is expected during 2013, with contributions from both price and volume. Passing on cost increases via price rises remains an important factor in maintaining profitability. Underlying demand for clothing and footwear from consumers is expected to remain stable during the year and the expectation is that there will not be further material reductions in retailer inventories. Growth is expected in the speciality (non-apparel and footwear) markets, which continue to grow globally.

# No.1

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

# 100+

Our products are sold in over 100 countries

# 20,000+

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

## Coats' strategy

Coats has seen a period of substantial investment by GPG in developing a world class manufacturing footprint and, more recently, in new product development, digital technology, business management and growth capabilities

We are focused on driving profitable and cash generative growth with a robust business model based on an unrivalled global footprint, a strong presence in our chosen markets, deep customer understanding and relationships, and breadth of products and services

### Our vision

To be the world leader in value added engineered yarns and threads for industrial and consumer use

To develop and supply highly complementary products and services where they add significant value to customers

We will achieve success through customer-focused innovation and winning propositions driven by motivated people and global teamwork

### Our goals

#### Profitable sales growth

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

#### Increased productivity

By continually focusing on how we utilise our assets and expenditure

#### Positive teamwork

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

### Our strengths

#### Global

We have an unparalleled global footprint with deep local understanding and long standing customer and supplier relationships

#### Expert

Our people are recognised experts and support our customers, suppliers and brand partners with market leading products, designs and advisory services

#### Pioneering

We anticipate trends and consistently deliver industry leading product and service innovations that meet clear needs

### Our principles and values

#### Freedom to operate

#### Delivery (keep our promises)

#### Openness and honesty

#### Customer led innovation

#### Energy for change

The Crafts Division achieved sales growth of 6% in 2012 at constant exchange rates and, while the reorganisation activity will deliver an improvement in profitability, it is expected that continued high customer inventory levels in Brazil will dampen growth in Latin America, contributing to year-on-year sales growth being more limited. Further improvement in margins is anticipated in the second half as the benefits of price increases being implemented in the first half of 2013 and European cost reductions begin to take effect. As referred to above, the further rationalisation of the EMEA Crafts business in 2013 will adversely impact sales growth as non-core product ranges are exited, but should facilitate improved operating results. Restructuring activity in 2013 is expected to be in line with that set out in GPG's November 2012 Interim Management Statement, which noted that reorganisation charges in total for 2012 and 2013 were projected to be up to \$75 million. This accelerated programme brings forward projects planned for future years, however, overall net cash outflows on these accelerated projects are expected to be largely offset by disposal proceeds (before tax) of some \$50 million from surplus properties.

### In conclusion

Coats occupies a strong position as a market leader with a robust and defensible business model and stable operating margins, even in challenging market conditions. The company operates on a truly global basis with its own well-known brands and has deep and long-standing relationships with the leading retailers and manufacturers in apparel and footwear, speciality customers, crafts retailers and consumers.

The business is focused on accelerating profitable and cash generative growth across its three discrete end markets – apparel and footwear, speciality and textile crafts. These markets, together with an unparalleled geographic footprint, ensure that Coats is well hedged, both geographically and through sector diversification. The business has well-invested operations in more than 70 countries, together with a highly engaged workforce of more than 20,000 people across six continents.

Coats' growth strategy is underpinned by a pioneering history and culture and the business continues to show industry leadership 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.

Coats has seen a period of substantial investment by GPG in developing a world class manufacturing footprint and, more recently, in new product development, digital technology and other enabling assets. We are confident that these actions will sustain and build Coats' market leadership, revenue and profit growth.

### Paul Forman

Group Chief Executive, Coats plc  
27 February 2013

## Understanding 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.

As firefighters go about their work, our performance threads and zips offer heat and flame protection at temperatures up to 370°C.

We support our brand partners in scores of countries – from their design studios to the factory floor – and all connections in between.

We create the world's threads and yarns – for over 250 years we've helped to connect and form the fabric of daily life on our planet.

At the extremes of human performance, our high tensile industrial threads and yarns provide strength and flexibility when it matters.

Our creative teams take influences from the world's people, places, cultures and customs to develop rich pattern collections that inspire and delight.

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

**Our leading website for our industrial business – [www.coatsindustrial.com](http://www.coatsindustrial.com)** – is available in English, Chinese, Turkish, Spanish and Portuguese, meaning our customers can access the information they need, any hour of the day or night

**Our sophisticated colour management systems and integrated global supply chain** guarantee our customers consistency of product and supply anywhere in the world

## Global

Coats is the world's leading industrial thread and consumer textile crafts business, employing more than 20,000 people across six continents. One in five garments on the planet is held together with Coats' thread and we are the largest global player in the consumer textile crafts market

Our Crafts teams work with the world's leading retailers, helping them meet the needs of consumers – in 2012 we were proud to be recognised as **'Supplier of the Year' for the crafts category by Walmart in the USA**

**Our teams offer training and advisory services that deliver quantifiable benefits to customers,** such as improved product quality and increased manufacturing efficiency

**We deliver industry leading products and services** such as Coats **'Dual Duty'**, **'Nylbond'** and **'Epic'** – hi-tech threads used by apparel, footwear and speciality manufacturers worldwide, and **Coats Colour Express**, the world's fastest and most accurate colour sampling service

## Expert

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

We are proud of our pioneering history. **In the mid-1800s we sought out new markets and opportunities in places such as Russia, Spain, Hungary and America** while in 1890 we were one of the earliest companies to list on the London Stock Exchange

Our Crafts teams work with consumer research agencies, high profile designers and leading fashion-trend forecasters to **develop new products and projects that satisfy consumers' creativity** and their passion for crafts – whether in handknitting, sewing, crochet or embroidery

Our **development teams are creating new products** such as engineered yarns made from high performance materials that can be used in products such as flame retardant clothing, electronics and fibre optics – like **'Coats Ultrabloc'**, a water swellable yarn used for protecting fibre optic cables - or sophisticated threads such as **'Coats Protect'** – the world's first anti-microbial sewing thread

## Pioneering

Our pioneering history and innovative culture ensure we continue leading the way around the world providing complementary and value added products and services to the 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

### 95% of employees completed the 2012 Engagement Survey

The engagement score was 77%, eight points above the global benchmark and an increase of five percentage points on 2011's results

### We insist on the highest health and safety standards across all our operations

In 2012 we had 0.44 recordable accidents per 100 Full Time Employees, down from 0.60 in 2011, compared with the USA Textile Mills average of 3.5 per 100 employees\*

**We are committed to equal opportunities and pride ourselves on the diversity of our work force** For example our senior management group of some 100 members has over 25 different nationalities

## People

Our diversity and rich heritage have defined a distinct culture and way of working of which we are proud. Our strength and market leadership is based on the quality and commitment of our people. That's why employee engagement, health and safety and how people feel about working at Coats are so important to us

\* USA Occupational Safety and Health Administration figures 2011

## Our global reach

We are at home in more than 70 countries across six continents, and a part of the markets and communities in which we operate



### Key

- ☐ Manufacturing sites
- ☐ Countries in which Coats operates

Find out more online – [www.coats.com](http://www.coats.com)

For more information about Coats – latest news and products, history and heritage, business operations, financial performance, people and Corporate Responsibility – go to **[www.coats.com](http://www.coats.com)**

## Industrial Division

|                                           | Full year<br>2012<br>reported<br>Unaudited<br>\$m | Full year<br>2011<br>restated***<br>Unaudited<br>\$m | Full year<br>actual<br>decrease<br>Unaudited<br>% | Full year<br>2011<br>like-for-like*<br>Unaudited<br>\$m | Like-for-like increase/(decrease) |                                 |                                  |
|-------------------------------------------|---------------------------------------------------|------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|
|                                           |                                                   |                                                      |                                                   |                                                         | Full<br>year<br>Unaudited<br>%    | First<br>half<br>Unaudited<br>% | Second<br>half<br>Unaudited<br>% |
| <b>Sales</b>                              |                                                   |                                                      |                                                   |                                                         |                                   |                                 |                                  |
| Asia and Australasia                      | 624.8                                             | 633.1                                                | -1%                                               | 609.1                                                   | +3%                               | 0%                              | +6%                              |
| Americas                                  | 295.8                                             | 321.1                                                | -8%                                               | 304.1                                                   | -3%                               | -2%                             | -3%                              |
| EMEA                                      | 254.1                                             | 273.6                                                | -7%                                               | 254.4                                                   | 0%                                | -1%                             | +1%                              |
| <b>Total sales</b>                        | <b>1,174.7</b>                                    | <b>1,227.8</b>                                       | <b>-4%</b>                                        | <b>1,167.6</b>                                          | <b>+1%</b>                        | <b>-1%</b>                      | <b>+2%</b>                       |
| <b>Pre-exceptional operating profit**</b> | <b>110.8</b>                                      | <b>124.3</b>                                         | <b>-11%</b>                                       | <b>117.9</b>                                            | <b>-6%</b>                        | <b>-21%</b>                     | <b>+14%</b>                      |
| <b>Operating margin**</b>                 | <b>9.4%</b>                                       | <b>10.1%</b>                                         | <b>-70bps</b>                                     | <b>10.1%</b>                                            | <b>-70bps</b>                     | <b>-230bps</b>                  | <b>+100bps</b>                   |

\* 2011 like-for-like restates 2011 figures at 2012 exchange rates

\*\* Before reorganisation, impairment, and other exceptional items (see note 2 to the Coats Financial Information on page 101)

\*\*\* In line with changes in 2012 to the Coats Group's internal management structure, results for Crafts Asia and Australasia are now reported in the Industrial Division and the comparative figures for 2011 and first half 2012 have been restated accordingly

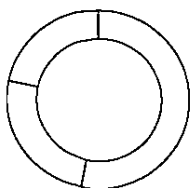
In the following commentary, all comparisons with 2011 are on a like-for-like\* basis

### Sales

**\$1,174.7m**

+1%  
2011\* \$1,167.6m

### Geographic sales 2012



Asia and Australasia \$624.8m  
Americas \$295.8m  
EMEA \$254.1m

Asian sales growth of 3% for the year as a whole was impacted by weak demand in European end-user markets. However, sales growth of 6% was achieved in the second half, with benefits from volume growth in segments catering to domestic rather than export demand in territories such as India, as domestic markets continue to expand. Coats' long-standing relationships with global apparel and footwear suppliers and brand owners continue to help underpin the business.

Sales in the Americas were impacted by the poor economic situation in Latin America. In the key market of Brazil, notwithstanding some currency depreciation during the year, local apparel and footwear production continued to be replaced by imports. In North America, there was good sales growth in speciality segments such as fibre optics and aramids, but this was offset by significant reductions in the defence sector.

In EMEA, consumer demand was weak throughout 2012 and the first half was also impacted by retailers exercising caution in terms of inventory management.

For the full year, pre-exceptional operating profits for the Division were 6% lower than 2011 at like-for-like exchange rates. The 14% improvement in profitability in the second half reflects sales growth, easing of raw material price increases and improving gross margins, plus the benefit of soft comparatives in 2011 when a contraction of customer inventory levels in the second half impacted profits. Operating profit margin in the second half improved from 9.0% in 2011 to 10.0%.

### Key market segments

- Apparel
- Footwear
- Automotive
- Health care
- Food and beverage
- Luggage and travel
- Home furnishings
- Sporting goods
- Outdoor goods
- Protective clothing

## Crafts Division

|                                           | Full year<br>2012<br>reported<br>Unaudited<br>\$m | Full year<br>2011<br>restated***<br>Unaudited<br>\$m | Full year<br>actual<br>increase/<br>(decrease)<br>Unaudited<br>% | Full year<br>2011<br>like-for-like*<br>Unaudited<br>\$m | Like-for-like increase/(decrease) |                                 |                                  |
|-------------------------------------------|---------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------|---------------------------------|----------------------------------|
|                                           |                                                   |                                                      |                                                                  |                                                         | Full<br>year<br>Unaudited<br>%    | First<br>half<br>Unaudited<br>% | Second<br>half<br>Unaudited<br>% |
| <b>Sales</b>                              |                                                   |                                                      |                                                                  |                                                         |                                   |                                 |                                  |
| Americas                                  | 311 0                                             | 303 0                                                | +3%                                                              | 290 3                                                   | +7%                               | +7%                             | +7%                              |
| EMEA                                      | 167 7                                             | 170 8                                                | -2%                                                              | 160 3                                                   | +5%                               | 0%                              | +9%                              |
| <b>Total sales</b>                        | <b>478 7</b>                                      | <b>473 8</b>                                         | <b>+1%</b>                                                       | <b>450 6</b>                                            | <b>+6%</b>                        | <b>+5%</b>                      | <b>+8%</b>                       |
| <b>Pre-exceptional operating profit**</b> | <b>16 2</b>                                       | <b>19 3</b>                                          | <b>-16%</b>                                                      | <b>18 1</b>                                             | <b>-10%</b>                       | <b>-36%</b>                     | <b>+35%</b>                      |
| <b>Operating margin**</b>                 | <b>3 4%</b>                                       | <b>4 1%</b>                                          | <b>-70bps</b>                                                    | <b>4 0%</b>                                             | <b>-60bps</b>                     | <b>-200bps</b>                  | <b>+70bps</b>                    |

\* 2011 like-for-like restates 2011 figures at 2012 exchange rates

\*\* Before reorganisation, impairment, and other exceptional items (see note 2 to the Coats Financial Information on page 101)

\*\*\* In line with changes in 2012 to the Coats Group's internal management structure, results for Crafts Asia and Australasia are now reported in the Industrial Division, and the comparative figures for 2011 and first half 2012 have been restated accordingly

In the following commentary, all comparisons with 2011 are on a like-for-like\* basis

Sales growth of 7% in the Americas in 2012 reflects volume increases achieved through gains in shelf space with large retail store customers in North America. This growth was achieved in both handknittings and consumer sewings. However, Latin America's performance was adversely impacted by customer overstocking in handknittings from 2011, followed by a warm winter in 2012.

The overall EMEA crafts market remained weak, particularly traditional consumer sewings in Southern Europe, where austerity measures and cuts in public spending continue to dampen consumer confidence. However, there was strong demand for handknittings, the largest product category, which led to sales growth of 5% for the year after years of decline. The continued focus on digital channels, class-leading product ranges and service levels gave additional sales impetus and supported the very positive EMEA sales growth in the second half of the year. The further rationalisation of the business in 2013 will adversely impact top line sales, but should facilitate improved operating results before exceptional charges.

Pre-exceptional operating profits for the division for the full year were 10% lower than 2011. The 35% improvement in profitability in the second half reflected the impact of price increases implemented across all regions during the first half of 2012 and volume growth, as well as the easing of the impact of raw material price increases in the second half. Operating profit margin in the second half improved from 2.8% in 2011 to 3.5%, notwithstanding adverse changes in product mix. However, the profit of the division continued to be held back by losses in EMEA, which are being addressed by the previously referred to accelerated reorganisation activity.

### Consumer activities served

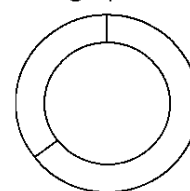
- Handknitting
- Crochet
- Lifestyle fabrics
- Needlecraft
- Accessories

### Sales

**\$478.7m**

+6%  
2011\* \$450.6m

### Geographic sales 2012



Americas \$311.0m  
EMEA \$167.7m

## Coats Group Finance Review

### Richard Howes

Coats Chief Financial Officer

#### Exceptional items

Net exceptional costs charged to profit before taxation totalled \$167.5 million (2011 \$120.0 million), of which \$120.4 million (2011 \$10.0 million credit) related to the European Commission fine.

In June 2012, the European General Court dismissed Coats' appeal against the €110.3 million fine imposed by the European Commission in 2007. An exceptional charge of \$120.4 million was incurred in the year to recognise the previously unprovided element of the fine and interest accrued from the date of the original European Commission decision in 2007. Within the consolidated income statement, \$84.6 million represents an exceptional item within operating profit and \$35.8 million represents an exceptional item within finance costs. Coats refinanced its senior debt facilities in October 2011, making allowance for the possibility of an unfavourable judgment. It therefore had adequate banking facilities in July 2012 to enable it to settle the fine and associated interest.

Coats is subject to a lawsuit in the US that followed on from the original decision by the European Commission. While that decision focused on conduct in the European Union relating to fasteners, the consolidated class action complaint filed by US plaintiffs in the Eastern District of Pennsylvania against Coats and three other manufacturers makes allegations under US antitrust laws relating to sales of zippers and other fasteners from January 1991 until September 2007 in the US. Coats considers that the plaintiffs' case is without merit and is vigorously defending it.

A further \$47.1 million (2011 \$13.0 million) of operating exceptional items have been incurred, including reorganisation costs of \$39.9 million (2011 \$14.6 million) and \$8.0 million (2011 \$2.5 million) of US environmental costs. As noted in previous reports, the US Environmental Protection Agency 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. CC has joined a Cooperating Parties Group ('CPG') of approximately 70 potentially responsible parties that have agreed to fund the study of the LPRSA. During the year, the members of the CPG, including CC, also agreed to fund the remediation of part of the LPRSA, and CC's interim allocation of the cost of this remediation is estimated at approximately \$0.7 million. The \$8.0 million charge is primarily connected with this, CC's latest estimated share of LPRSA study costs, and associated legal and consultancy costs (see note 2 to the Coats Financial Information on page 101 for further details).

#### Non-operating results

Investment income was \$2.6 million (2011 \$7.3 million), with the differential largely due to \$4.1 million compensation received in 2011 in relation to a compulsory state financing arrangement in Latin America in the 1980s and 1990s.

Excluding exceptional items, finance costs of \$19.4 million were \$2.6 million higher than in 2011, primarily due to a \$2.0 million lower net return on pension scheme assets and liabilities. The impact of payment of the European Commission fine on overall finance costs is not significant given that, during the period of the appeal, guarantees (with an associated finance cost) were provided to the European Commission for the full amount of the fine plus interest.

A tax charge of \$46.6 million (2011 \$45.6 million) has been incurred. Excluding all exceptional items plus any associated tax effect and prior year tax adjustments, the effective tax rate on pre-tax profits of \$111.3 million (2011 \$136.2 million) is 46% (2011 35%). The increase in the underlying tax rate reflects the lower profitability in Latin America. No tax relief is available on the European Commission fine and associated interest.

The \$2.7 million loss from discontinued operations (2011: \$1.8 million) primarily relates to provisioning for historical UK employer liability claims.

The net loss attributable to GPG was \$113.0 million (2011: \$71.2 million profit). Excluding exceptional items and their associated tax effect, the Coats Group generated a net profit of \$50.6 million (2011: \$81.1 million).

#### Cash flow

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) was \$179.8 million (2011: \$200.6 million).

The net cash inflow from normal operating activities improved to \$171.8 million (2011: \$150.3 million). This reflects a net working capital inflow of \$7.0 million (2011: \$29.5 million outflow) generated by lower inventory levels and improvements in creditor terms.

Spend on reorganisation and capital projects totalled \$60.2 million (2011: \$64.2 million) representing 1.1 times (2011: 1.1 times) depreciation.

Interest (excluding the exceptional interest of \$35.8 million) and tax paid totalled \$62.6 million (2011: \$60.7 million).

Excluding the \$174.8 million payment of the European Commission fine and associated interest, a free cash flow (being the change in net debt resulting from cash flows) of \$44.8 million (2011: \$18.0 million) was generated which would have resulted in net debt reducing from \$238.4 million at the 2011 year end to \$192.8 million. Including the impact of the fine and associated interest payment, net debt in fact increased to \$367.6 million.

A key metric for the Coats Group is the leverage ratio of net debt to EBITDA. Under the definitions of net debt and EBITDA prescribed in Coats' senior debt facility, net debt at 31 December 2012 was 2.1 times EBITDA (2011: 2.1 times), well within Coats' covenant limits of 3.0 times.

#### Balance sheet

Equity shareholders' funds fell from \$233.7 million at the end of 2011 to \$77.9 million. This primarily reflects the \$113.0 million attributable loss and a \$35.9 million actuarial loss taken directly to reserves in respect of all of the Coats Group's retirement benefit arrangements.

#### Pension and other post-employment benefits

Coats' UK scheme has been commented on within the GPG Chairman's Statement see page six.

At 31 December 2012, Coats' US scheme showed a gross surplus of \$78.0 million (2011: \$72.1 million) and a recoverable surplus of \$37.3 million (2011: \$33.7 million). An employer contribution holiday for this scheme continues to be taken based on actuarial advice. The recoverable surplus for this scheme is predominantly included in non-current assets.

There are various pension and leaving indemnity arrangements in other countries (primarily in Europe) where the Coats Group operates. The vast majority of these schemes, in line with local market practice, are not funded but are fully provided in the Coats Group financial information and are predominantly included in current and non-current liabilities.

#### Revenue US\$m

|    |            |
|----|------------|
| 12 | \$1,653.4m |
| 11 | \$1,701.6m |

#### Pre-exceptional operating profit US\$m

|    |          |
|----|----------|
| 12 | \$127.0m |
| 11 | \$143.6m |

#### Operating (loss)/profit US\$m

|    |          |
|----|----------|
| 12 | \$(4.7)m |
| 11 | \$131.6m |

#### Free cash flow US\$m

|    |         |
|----|---------|
| 12 | \$44.8m |
| 11 | \$18.0m |

'We operate to the highest ethical business and employment standards across our global operations'

Paul Forman  
Coats Group Chief Executive

## Corporate Responsibility

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



11%

Emissions of greenhouse gases from operations dropped by 11% in 2012, as a result of our focus on converting demand to renewable sources and improving energy efficiency

### Overview

Our global scale enables us to build close relationships with our customers wherever they are located, leverage our expertise from around the world and develop local market opportunities. However, the diversity and complexity of our operations brings many social and environmental challenges. Some of these are unique to a particular country or location, others apply globally. It is important that we understand these and our impact on society to manage our business responsibly wherever we operate.

Our approach to CR is focused on seven *strategic themes*, all of which support and contribute to the achievement of our business goals. Each of these themes has measurable objectives and action plans, for which senior managers across the business are responsible.

We recognise we have a duty to use water resources responsibly. In Turkey we have an advanced Reverse Osmosis plant that recycles waste water.

### Our CR Programme helps to ensure that

*Our products* are manufactured with the utmost attention to quality, reliability and value for money, and our product safety standards are the most exacting in the industry. For instance, all appropriate thread products are covered by an Oeko-tex Standard 100 Class I certificate, guaranteeing suitability for babywear.

We monitor *our manufacturing processes* to ensure that we keep waste to a minimum and we reduce our carbon footprint by investing in energy efficiency as well as in new technology. All of these efforts contribute to lower costs and increased efficiencies across our production sites.

*Our relationships with business partners and suppliers* are aligned with our approach to CR. We have developed a new supplier code of practice which we will begin to roll out in 2013.

We create the *best possible working environment* that allows us to attract and retain a talented workforce. We employ over 20,000 people in more than 70 countries worldwide, of whom over 95% responded to our 2012 employee engagement survey. This is significantly higher than the all industry average and demonstrates a high level of commitment throughout the business.

We maintain a safe working environment and we have a *robust approach to managing health and safety*. Our accident rate has dropped by nearly 27% since 2011 to 0.44 reportable incidents per 100 Full Time Employees. This takes us even further below the Occupational Safety & Health Administration's (OSHA) average of 3.5 for US textile mills.

We are proud to be part of the *communities* where we operate and we work to develop close relationships with local people, authorities and business partners, as well as community groups. We strive to ensure *our community programmes* resonate with our corporate CR objectives, the interests of our employees, the needs of our business and the products we sell.

For more information on our approach to Corporate Responsibility and detailed reporting against our seven strategic themes please see our website.

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

## Board of Directors

### **R J Campbell, Chairman**

Rob Campbell has over 20 years' experience in investment management and corporate governance. He is a director and audit and risk committee member of Aquasure Pty Ltd. He is a director of Coats plc, Turners & Growers Ltd and Precinct Properties Ltd and Chairman of Summerset Group Ltd. Rob is also a board or advisory board member of several private equity and hedge funds globally. He has previously directed the investments of a large family office, and held board appointments in numerous private sector and public sector organisations in New Zealand.

Appointed to the Board 22 September 2010

Appointed Chairman on 5 April 2011

### **M N Allen, Non-Executive Director**

Mike Allen is a New Zealand based professional director. His directorships include Coats plc (Chairman), Watercare Services Ltd, Breakwater Consulting Ltd, Tainui Group Holdings Ltd, Tower Ltd, NZ Windfarms Ltd and Godfrey Hirst NZ Ltd.

Appointed to the Board 22 September 2010

### **Sir Ron Brierley, Non-Executive Director\***

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

Appointed to the Board March 1990

### **S L Malcolm, Non-Executive Director**

Scott Malcolm has over 25 years' experience in investment banking and corporate finance both in Australia and the USA. He is currently a partner in a Sydney, Australia based corporate advisory firm, Greenstone Partners Pty Limited.

Appointed to the Board 19 January 2012

Chairman of the Remuneration and Nominations Committee

### **B A Nixon, Non-Executive Director\***

Blake Nixon has wide corporate experience in the UK and overseas. He is a director of Coats plc. He acts as a trustee on two of the Group's UK pension schemes. On 30 June 2011 Blake ceased to be an executive director and became a non-executive director on 1 July 2011.

Appointed to the Board March 1990

Chairman of the Audit, Finance and Risk Committee

### **W R Szlezak**

Waldemar Szlezak has wide experience in the international business scene. He currently serves as a Managing Director in the private equity group of Soros Fund Management LLC ("SFM"). SFM is the principal investment advisor to Quantum Strategic Partners, Ltd, which is a private investment vehicle that currently holds 133,201,970 of the Company's shares.

Appointed to the Board 6 March 2013

Note: All directors save Waldemar Szlezak are members of the Audit, Finance and Risk Committee and of the Remuneration and Nominations Committee.

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

## Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2012

### Business Review

The Company is a strategic investment holding company. Comments on the Group's activities during 2012 and also on the outlook for 2013 are set out on pages 2 to 9 in the Chairman's statement, which forms part of this Directors' Report.

The Group's operating subsidiaries are Coats plc ('Coats') and CIC Australia Limited ('CIC') and CIC has been classified in this Annual Report as an asset held for sale. As set out in the Chairman's statement, it is proposed that GPG will be re-launched as Coats during 2013. As a result this Annual Report also includes a Business Review specifically covering Coats' performance and financial position. CIC produces its own Annual Report, in which can be found reports on its business operations.

The Company's key performance indicators ('KPIs') are movements in shareholders' funds, profits attributable to shareholders, overhead costs and proceeds from disposals. These KPIs are shown in the following charts/tables within the Chairman's statement:

- Movements in shareholders' funds,
- Elements of reported result for the year,
- Overhead costs, and
- Table of proceeds from disposals from 1 January 2011 to 22 February 2013.

In addition, net asset backing per share is shown on page 41.

Further information can be found in the Corporate Governance report which forms part of this Directors' Report on pages 26 to 34 under the headings 'Internal Controls', 'Business Review' and 'Principal Risks and Uncertainties', including commentary on the way the Group manages the risks inherent in its activities and those of its operating subsidiaries.

### Strategy to Realise Value

On 11 February 2011 the Company announced a strategy to realise value. This involves an orderly value realisation of GPG's investment portfolio over time. In accordance with announcements made on 3 September 2012 and 25 October 2012, the Company has been implementing a programme to buy back and cancel up to £70 million of its own shares. As at 19 March 2013 217,580,785 shares had been bought back by the Company for £69,976,714 million. The Company has now terminated the buyback programme.

On 12 March 2012 the sale of GPG's entire holding of 74,254,522 ordinary shares in Turners & Growers Ltd, a former subsidiary, was completed for a total consideration of NZ\$137 million (£72 million). Cumulative net realisation proceeds generated from 1 January 2011 to 22 February 2013 totalled £495 million. Further details may be found on page 9 in the Chairman's statement and note 36 to the financial statements on Post Balance Sheet Events.

### Post Balance Sheet Events

Please see note 36 on page 81 for other significant post balance sheet events.

### Going Concern

The directors' consideration of the going concern assumption is discussed on page 31.

### Results and Dividends

The results of the Group are shown on page 38 and movements in reserves are set out in note 30 to the financial statements. GPG paid no dividend in respect of the year ended 31 December 2012 (2011: 1.15p per share). The directors do not propose a final dividend (2011: Nil).

### Share Capital

Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 29. The Company has one class of Ordinary Shares, which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation. Shareholder authority for the Company to purchase up to 243,401,526 of its own shares was granted at the 2012 Annual General Meeting. As at 31 December 2012 there remained authority for the Company to purchase up to 162,841,503 of its own shares, the Company having purchased 80,560,023 of its own shares pursuant to its buyback programme during the year.

\*Based on NZ\$ : GBP exchange rate on 31 December 2012: NZ\$1.9621 : £1.00

As a result of the share buyback programme, and taking into account allotments during the year due to the exercise of options by the Company's share option scheme participants, the issued share capital of GPG at 31 December 2012 had reduced to £78,296,799 50 divided into 1,565,935,990 ordinary shares of 5 pence each. Following further cancellations of shares pursuant to the share buyback programme and allotments of shares following the exercise of options, the issued share capital of the Company at 8 March 2013, the date of the Company's last announcement of Total Voting Rights, was £73,924,892 85 divided into 1,478,497,857 ordinary shares of 5 pence each. Furthermore, on 19 March 2013 the Company announced that it had completed its buyback programme having purchased a total of 217,580,785 shares. Of that number, a total of 69,500,000 shares have not yet been cancelled. Following the anticipated cancellation of those shares, the remaining issued share capital of the Company will be 1,407,152,123. The Company's Ordinary Shares are listed on the London Stock Exchange, the main board equity security market operated by NZX Limited (the 'New Zealand Stock Exchange') and on the Australian Securities Exchange. The principal register is held in the UK. Branch registers are maintained in Australia and New Zealand.

#### Substantial Interests

At 31 December 2012 the Company had received notification of interests of greater than 3% of the then issued Ordinary Shares of the Company as follows

| Holder                                  | Interest in Ordinary Shares | % of Issued Share Capital |
|-----------------------------------------|-----------------------------|---------------------------|
| Quantum Strategic Partners              | 133,201,970                 | 8.51                      |
| Accident Compensation Corporation       | 103,596,320                 | 6.62                      |
| AMP Capital Investors (New Zealand) Ltd | 69,526,204                  | 4.44                      |
| OnePath (NZ) Limited                    | 69,836,986                  | 4.46                      |
| Westpac Banking Corporation             | 59,935,854                  | 3.83                      |
| Deutsche Bank AG                        | 59,751,177                  | 3.82                      |
| BlackRock Inc                           | 52,154,043                  | 3.33                      |

Since the year end the Company has received notification of interests as follows

| Holder                                  | Interest in Ordinary Shares | Date of Declaration/Confirmation | % of Issued Share Capital* |
|-----------------------------------------|-----------------------------|----------------------------------|----------------------------|
| Quantum Strategic Partners              | 133,201,970                 | 11/03/13                         | 9.01                       |
| AMP Capital Investors (New Zealand) Ltd | 95,859,610                  | 06/03/13                         | 6.33                       |
| Accident Compensation Corporation       | 94,268,436                  | 21/03/13                         | 6.38                       |
| Westpac Banking Corporation             | 57,535,297                  | 06/03/13                         | 3.80                       |

\*At date of Declaration/Confirmation

#### Property, Plant and Equipment

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

#### Financial Instruments

Disclosure of the use of financial instruments by the Group can be found in note 37 to the financial statements

#### Creditor Payment Policy

The majority of the Group's investment activity takes place on regulated stock exchanges and the Group abides by the terms of payment laid down by those exchanges. Otherwise, and in the absence of dispute, amounts due to trade and other suppliers are settled within their terms of payment. The Group does not follow a specific code or standard in respect of such creditors. As at 31 December 2012, the Company's trade creditors (excluding amounts attributable to investments) represented 7 days' purchases (2011: 4 days)

**Donations**

In the year ended 31 December 2012, the Group made charitable donations of £86,793 (2011 £74,581), principally to local charities serving the communities in which the Group operates. Contributions of £10,632 were made to non-EU political parties during the year (2011 £2,412).

**Directors and their Responsibilities**

The current directors who served during the year and up to the date of this report are detailed on page 22.

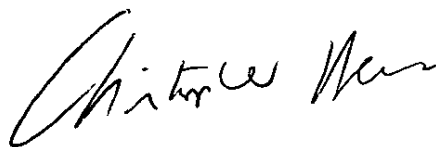
In accordance with the articles of association, one-third of the board of directors must retire by rotation at the Annual General Meeting. The directors that must retire by rotation are to be selected from those who have been longest in office since their last appointment or reappointment, and accordingly it has been agreed that Rob Campbell and Mike Allen will retire and, being eligible, offer themselves for re-election at the 2013 Annual General Meeting. In addition, Mr Szlezak, having been appointed since the last Annual General Meeting shall also retire, and being eligible, is seeking election to the board of directors.

A report on Directors' Responsibilities and a statement regarding the disclosure of information to the auditor appear on page 35.

Further discussion of the Board's activities, powers and responsibilities, and information on compensation for loss of office, appear within the Corporate Governance report on pages 26 to 34.

**Auditor**

A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2013 Annual General Meeting. A statement in respect of the auditor, in accordance with Section 418 of the Companies Act 2006, has been included in the Directors' Responsibilities Statement on page 35.



By order of the Board

Chris Healy  
Company Secretary

26 March 2013

# Corporate Governance

GPG is a publicly traded company established in England and Wales. It is a premium listed issuer on the London Stock Exchange and its shares are quoted on the Australian Securities Exchange and, as an Overseas Listed Issuer, on the New Zealand Stock Exchange. As a UK company with a premium listing the Company is required in respect of the year ended 31 December 2012 to comply with or explain deviations from the UK Corporate Governance Code ('the Code') when describing the Company's Corporate Governance arrangements. More information about the Code may be obtained at the UK Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk)

## Board Composition

The Board consists of six non-executive directors being the Chairman Rob Campbell, Mike Allen and Scott Malcolm (each of whom is regarded as independent) together with Sir Ron Brierley, Blake Nixon and Waldemar Szlezak, who was appointed on 6 March 2013.

GPG regards itself as a small company for the purposes of the Code and as such, has at all times during 2012 had at least two independent non-executive directors as prescribed by the Code.

Scott Malcolm was appointed to the Board on 19 January 2012. He was appointed following careful consideration by all members of the Board. He is a partner with Greenstone Partners, and when appointing him the directors and senior management were familiar with his knowledge and skills and considered that he would bring wide ranging experience to the GPG Board during the implementation of its strategy to realise value.

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

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

During 2012, until the appointment of Scott Malcolm, the Board did not have a majority of independent non-executive directors for the purposes of the Australian equivalent of the Code being the ASX Corporate Governance Council Principles and Recommendations ('ASX Governance Principles'). Following the appointment of Waldemar Szlezak the Board no longer comprises of a majority of independent non-executive directors.

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

As a result of the evolving value realisation process it has not been possible to specify the time commitment required from directors, nor the commitment which will be required going forward. Therefore the letters of appointment of the non-executive directors do not set out their expected time commitment, although all directors have undertaken to provide sufficient time to engage effectively in the process of value realisation.

With regard to the appointment and replacement of directors, the Company is governed by reference to its Articles of Association, the UK Companies Act 2006 and related legislation. Short biographies of each of the directors appear on page 22 and details of the directors' remuneration arrangements are set out on pages 31 and 32.

## Compliance

The Board has put in place corporate governance arrangements which it believes are appropriate for the operation of an international strategic investment holding company and are also appropriate for the oversight and management of the value realisation process. These arrangements cover not only the Company but also its subsidiary companies. The Board also operates an Audit, Finance and Risk Committee and a Remuneration and Nominations Committee each of which consists of all six non-executive directors. In the case of the Audit, Finance and Risk Committee, there is an additional independent non-Board member. The Board also operates an Investment Committee. Other than as noted GPG substantially complied with the Code and with its equivalent in Australia throughout 2012. It should be noted that the Code may materially differ from the New Zealand Stock Exchange's corporate governance rules and the principles of the Corporate Governance Best Practice Code of the New Zealand Stock Exchange, however, GPG is not obliged to comply with these. The Group's compliance or otherwise will continue to be monitored by the Board.

## Board Responsibilities

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

In addition to the monitoring of the Group's activities by the directors, regular meetings of the Board and the Investment Committee are scheduled to discuss investment matters. In this way strategies in respect of the Group's assets are carefully evaluated and monitored. Furthermore, there is a formal schedule of matters specifically reserved for the approval of the Board and its Committees. These matters include the Group's strategy, changes to the Group's capital structure, treasury policies and stock exchange listing.

matters. Details of the frequency of meetings and attendance at the Company's Board and Committee meetings during 2012 are set out on page 28.

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

The Company has a procedure in place by which directors can seek independent professional advice at the Company's expense if the need arises. As recommended by the Code, GPG provides certain protections for directors and officers of companies within the Group against personal financial exposure that they may incur in the course of their duties. In addition, GPG has provided an indemnity for its directors to the extent permitted by law in respect of the liabilities incurred as a result of their office.

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

### Board Committees

As mentioned above, the Board has in place to assist in the execution of its duties an Audit, Finance and Risk Committee, a Remuneration and Nominations Committee and an Investment Committee. Each of the Committees is authorised, at GPG's expense, to obtain external legal or other professional advice to assist it in carrying out its duties. In addition to those Board Committees, the Board has also established an Executive Committee consisting of senior management of GPG and Coats to oversee the transition from GPG to Coats. It reports directly to the Board on a regular basis but does not include any members of the GPG Board.

### Audit, Finance and Risk Committee

At the beginning of the year this Committee consisted of Blake Nixon, as chairman of the Committee, and Mike Allen, an independent non-executive director. David Wadsworth FCA, who is not a director of the Company, has continued throughout the year as an independent member of the Committee. He was appointed to ensure that, in accordance with the Code, the Committee included a member with recent and relevant financial expertise. Mr Wadsworth was formerly a partner of Deloitte LLP. These members provide the required competence and experience in accounting and auditing matters. However, at that time the composition of the Audit, Finance and Risk Committee did not comply with the Code in that it did not consist of two independent non-executive directors. Nevertheless, given that the Committee consisted of an independent non-Board member and an independent non-executive director, the Board considered the composition of the Committee to be sufficiently independent and equipped with sufficient expertise for the purposes of the Code (or its equivalent in Australia). On 23 May 2012 Rob Campbell, Sir Ron Brierley and Scott Campbell were also appointed members of the Committee. The composition of the Committee has therefore been fully compliant with the Code since that date.

The Committee is responsible for monitoring, amongst other things, the financial reporting process, the integrity of the financial statements of the Company, and any other formal announcements relating to its financial performance, the effectiveness of the internal controls and risk management systems of the Company and its subsidiary companies, and compliance with statutory obligations and corporate governance requirements. In December 2012 the Board reviewed and revised the Terms of Reference of the Committee in light of the anticipated transition of GPG into Coats. It now has direct oversight of the financial reporting process of Coats, and members of the Coats board have a standing invitation to attend the meetings of the Committee. The Committee meets as required in advance of and during the annual audit process and to consider the final output, as well as to consider the half-yearly review.

The Committee is also responsible for making recommendations on the engagement and independence of the Company's auditor, Deloitte LLP. This firm was appointed the Company's auditor in 2003 following an evaluation process including the Company's predecessor audit firm. The Committee continues to review the position annually. The review includes a comparison of the audit and non-audit fees paid to Deloitte LLP. There are currently no contractual obligations that restrict the Group's choice of external audit firm. The Committee has a policy in place for ensuring the independence of its auditor. The policy categorises non-audit services into three types: (i) Permitted services are those that fall outside the scope of an audit and these are managed by reference to the fee levels whereby services with fees exceeding certain amounts, either individually or cumulatively, cannot be provided by the auditor without the prior approval of the Audit, Finance and Risk Committee – during 2012, these permitted non-audit services were primarily comprised of tax planning, compliance and advice and strategic corporate finance services; (ii) Other advisory services which are deemed not to compromise the independence of the auditor but are reviewed on a case by case basis; and (iii) Certain services, such as services remunerated on a success fee or participation in activities normally undertaken by management, are prohibited from being provided by the auditor because of the potential to compromise audit independence – the Board confirms that no such services have been provided. The Committee is satisfied that its policy on the supply of non-audit services by the Company's auditor, Deloitte LLP, ensures that audit objectivity and independence are safeguarded. Following consideration of the performance and independence of the external auditors, the Audit, Finance and Risk Committee has recommended the continued appointment of Deloitte LLP for the 2013 financial year.

The Code obliges audit committees to consider the need for internal audit and to make a recommendation to the Board. The Audit, Finance and Risk Committee reviews the position annually and currently it recommends to the Board that the Parent Group is not sufficiently large or complex to justify a centralised internal audit function. The Committee considers Coats' operations to be sufficiently widespread to justify its own internal audit function, and the internal audit function reports it produces are now made directly to the GPG Audit, Finance and Risk Committee.

## Corporate Governance continued

'Whistleblowing' procedures exist within the Company and within Coats and CIC

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

### Remuneration and Nominations Committee

At the beginning of the year the Remuneration and Nominations Committee consisted of one independent non-executive director being Mike Allen (who resigned from the Committee and was replaced by Scott Malcolm as Chairman in February 2012) together with Sir Ron Brierley. At that time, given that the Board consisted only of non-executive directors, that the Company was in the process of value realisation and that there was representation by one independent non-executive director, the Board was satisfied that the composition of the Committee was sufficiently independent and of the appropriate size for the purposes of the Code (or its equivalent in Australia). On 23 May 2012 Rob Campbell, Mike Allen and Blake Nixon were also appointed members of the Committee. The composition of the Committee has, therefore, been fully compliant with the Code since that date.

Remuneration: the Committee monitors, reviews and sets GPG's remuneration policy as set out in the Report on Remuneration and Related Matters on pages 31 to 33.

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

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

### Investment Committee

This Committee consists of Scott Malcolm as chairman, Mike Allen, Rob Campbell, Sir Ron Brierley, Blake Nixon and Waldemar Szelezak together with the Chief Investment Officer and the Chief Financial Officer. Its purpose is to review all disinvestment/investment proposals under the Company's value realisation strategy and to make recommendations to the Board where required.

### Board Evaluation

The Board conducts a formal annual evaluation of its members. Each director is invited to submit an evaluation of his performance during 2012 in relation to the strategy to realise value and the efficient transition of GPG to Coats, as well as his contributions and commitments to the Board and its Committees. The Chairman of the Board is invited to comment on each evaluation. The Chairman's evaluation is considered by other senior executives. The outcome of these evaluations allows the Board to conclude that it is satisfied with the effectiveness and appropriateness of the composition of the Board and its Committees.

### Attendance at Board and Committee Meetings in 2012

In accordance with the Code requirement that attendance by directors at Board, Audit, Finance and Risk Committee and Remuneration and Nominations Committee meetings be disclosed, the following table provides the number of meetings attended out of the number of meetings taking place during 2012 whilst the director was a member. All directors receive all papers relating to meetings of the Board and its Committees. Therefore it is not considered that non-attendance by a member will give rise to any governance issues.

| Director         | Board | Audit, Finance<br>and Risk Committee | Remuneration and<br>Nominations Committee |
|------------------|-------|--------------------------------------|-------------------------------------------|
| MN Allen         | 12/14 | 2/4                                  | 3/3                                       |
| Sir Ron Brierley | 11/14 | 0/2                                  | 5/5                                       |
| RJ Campbell      | 14/14 | 2/2                                  | 2/2                                       |
| SL Malcolm       | 12/14 | 1/2                                  | 4/4                                       |
| BA Nixon         | 12/14 | 4/4                                  | 2/2                                       |

### Internal Controls

The Board has overall responsibility for GPG's system of internal control and for reviewing its effectiveness. The internal controls are designed to address material risks which may affect the achievement of the Group's objectives and include business, operational, financial and compliance risks. These controls have been in place throughout the year for GPG and its principal subsidiaries and have continued in force up to the date of Board approval of the Annual Report. The internal controls are designed to identify, evaluate and manage, rather than eliminate, risk of failure to meet business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. During the year the system was reviewed by the Board. The system accords in all material respects with the 2005 guidance of the Turnbull Committee issued to companies listed on the London Stock Exchange (the 'Turnbull Guidance'). The internal control process distinguishes between the Parent Group (being the long term structural entities within the Group which hold GPG's investments), the major operating subsidiaries ('Operating Subsidiaries') and the Associated Undertakings and Joint Ventures. The reporting process ensures that all significant business units within the Group report to the Board as a whole in relation to financial information, risk management and internal control. The systems operated both at Parent Group and Operating Subsidiary levels are reviewed annually by GPG and the results of these reviews are reported to the Audit, Finance and Risk Committee and to the Board.

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

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

GPG has not established a formal code of conduct regarding ethical and responsible decision making nor does it have a formal policy on diversity, as the Board is satisfied with the internal controls and compliance principles referred to above. Having considered the requirements of the Code and of the ASX Governance Principles, it is the Company's practice to treat all appointments equally and on merit, regardless of ethnicity or gender. Accordingly, there is no information to disclose regarding diversity and equality goals.

### Parent Group

The identification and consequent management of risk for the Parent Group is an inherent feature in the investment evaluation process. The principal risks and uncertainties facing the Parent Group are addressed under Principal Risks and Uncertainties below.

In addition to the control procedures referred to under Principal Risks and Uncertainties, certain other key control procedures are in force at the Parent Group level. These include ensuring that investments are managed locally under an appropriate level of supervision, and that documents of title are held either within the Parent Group or by a reputable custodian.

### Investments

The Operating Subsidiaries, being discrete entities acquired by the Parent Group as investments, have their own boards of directors who operate and control these businesses independently. The Operating Subsidiaries are involved in activities other than strategic investment. In aggregate, the Group's share of the consolidated net assets (including goodwill but excluding Group loans) of the Operating Subsidiaries ("Group Share") represents some 18.2% of GPG's shareholders' funds of £434 million.

As at 31 December 2012, the Group had two major Operating Subsidiaries – Coats and CIC – of which Coats was wholly owned and CIC was partly owned. CIC was classified at the year end as a held-for-sale asset. Both Operating Subsidiaries' boards have been notified of their responsibilities for identifying key business risks appropriate to their own business sector and establishing appropriate and relevant control and compliance procedures. They are also required to acknowledge that they are responsible for the operation of their internal control systems.

Coats is the Company's largest Operating Subsidiary. Mike Allen, who with effect from 30 April 2012 was appointed chairman, together with Rob Campbell and Blake Nixon are members of the Coats board. Its internal controls are therefore carefully monitored and as mentioned above the GPG Audit, Finance and Risk Committee now has direct oversight of Coats' internal controls.

CIC is listed on the Australian Securities Exchange, hence it has prime reporting responsibilities to a recognised exchange, whose rules are similar to, but not the same as, those of the London Stock Exchange. However, it may be that certain of its control procedures, whilst deemed sufficient by the GPG Board to identify, manage and control the principal risks to its investments, differ from the more strictly defined requirements of the Turnbull Guidance or its local equivalents.

In respect of CIC, senior GPG management monitor the company to ensure that material risks to the value of the investment are managed.

The Board has reviewed and accepted a report on the internal controls operated in 2012 by Coats and CIC.

### Business Review

Commentary on GPG's Key Performance Indicators ('KPIs') is included in the Directors' Report on page 23. Due to the differing natures of the operations of the Company's Operating Subsidiaries, GPG does not compile composite KPIs dealing with Health and Safety or Environmental Matters, but does monitor these areas in relation to its major subsidiaries.

In respect of Health and Safety, Coats monitors its performance by reference to a USA standard measure (OSHA). The global rate of reportable accidents, which Coats measures to include commuting, was 0.51 in 2012 (2011: 0.62), compared with 3.5 for the OSHA rate for textile mills in the USA for 2011 (latest figure available). The OSHA comparator does not include accidents arising during commuting. Coats continues to operate an environmental management programme focusing on the prevention of environmental incidents, ensuring suppliers comply with the requirements of the current Coats Restricted Substances List and reducing waste and power consumption. Coats aims for Environmental management Systems consistent with ISO 14000. The US Environmental Protection Agency has notified Coats that it is a potentially responsible party under the US Superfund for investigation and remediation costs in connection with the Lower Passaic River Study Area in New Jersey, relating to an alleged predecessor's former facilities which operated in that area prior to 1950. Full details are set out in note 31 to the financial statements.

CIC's principal activities relate to the acquisition, sub-division, development, construction and sale of real estate in Australia. As a result it operates to very strict local regulation in respect of environmental and sustainability matters, commentary on which can be found on its website and in its latest Annual Financial Report which is also available on its website.

This Business Review has been prepared solely to provide additional information to shareholders to assess the company's strategies and the potential for those strategies to succeed.

The Business Review contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to their inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

### Principal Risks and Uncertainties

During the year the Audit, Finance and Risk Committee reviewed with management the Group's risk assessment and appropriate controls. It further considered these matters following the year end. In addition to the matters dealt with above in this Corporate Governance report the following risks and the processes in place to control or mitigate these risks were considered:

- **Market price risk**  
The investment evaluation process and its relationship to market price risk is described in note 37 to the financial statements, in particular on page 90. For GPG's investments, information systems are in place to provide directors with a weekly report on cash movements, transactions, portfolio holdings and market values. This provides the Board with up to date information enabling them to monitor and review the progress of investment strategies.
- **Human Resources**  
The Company is aware of its level of dependency on its staff and key individuals, and regularly reviews the appropriateness of its incentivisation/reward arrangements. The Board has recognised the risk to the strategy for value realisation from key staff leaving during the process and accordingly, retention and/or incentive plans have been established both for investment staff and senior administrative staff.
- **Pensions**  
The Group operates three significant defined benefit pension schemes in the UK and one in the US. Further and better particulars can be found in the Chairman's statement and in note 9 to the financial statements. The principal risks associated with such schemes relate to investment returns and mortality leading to inadequate funding. Should such a scheme's funding reduce significantly then the scheme's employer may become liable to increase contributions accordingly. The Group mitigates this risk by liaising with the scheme trustee and agreeing appropriate funding arrangements from time to time. Coats has previously agreed, based on the 2009 triennial valuation, to make contributions to the Coats UK Plan of £7 million per annum over a period of ten years. It is anticipated that when the 2012 valuation of this scheme is finalised, contributions in respect of past service will increase by approximately £7 million per annum to some £14 million per annum. As highlighted in the Chairman's statement, the Group is also expected to be required to retain net assets of at least £124 million to support the covenant provided to the Staveley and Brunel pension schemes. A deficit recovery plan has been agreed with the Trustee of the Staveley scheme and this will require payments to that scheme of £1.3 million per annum until June 2020. These payments will be funded from the £124 million referred to above as being required to be retained by the Group.
- **Regulatory Compliance**  
A key risk area for GPG is compliance with the regulatory regimes in the territories in which it operates including the UK, Australia and New Zealand. Non-compliance could result in GPG not being able to continue its business with resultant damage to reputation and potential for costs and losses. GPG mitigates this risk by relying on qualified external advisors to be able to provide information and advice on each country's regulatory and reporting requirements.
- **Treasury**  
In response to the value realisation strategy, spare liquid resources are being migrated between New Zealand dollars, Australian dollars and Sterling so as to match the profile of GPG's shareholder registers and other known commitments. To avoid unnecessary commitment fees, the Parent Group bank facility was terminated during the year.
- **Other Risks and Uncertainties**  
A description of the other principal risks and uncertainties that the Group faces, including market price risk, interest rate risk, liquidity risk and exposure to financial instruments, can be found in note 37 to the financial statements.

### Relations with Shareholders

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

Presentations were made in March 2012 to analysts and shareholders covering the Company's Preliminary Results for 2011 and subsequently on the group's pension schemes. They were also made following the release of the Company's Half Yearly Financial Report and its Preliminary Announcement of Results for 2012.

In addition, the Board considers the Annual General Meeting to be a useful forum to develop an understanding of the views of its major shareholders. At its 2012 Annual General Meeting the Chairman provided an additional report to shareholders.

Copies of all these presentations and reports and the results of proxy voting at the 2012 Annual General Meeting were released to the markets and can be found on the Company's website.

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement together with a Simplified Balance Sheet for the Group. In addition, note 37 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk. The Parent Group holds significant financial resources across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

At the year end the Parent Group had cash totalling £243 million (2011 net debt £14 million). The Parent Group also has various other actual and contingent liabilities including the commitments described in the Chairman's statement to support the Brunel and Staveley pension schemes. The Board expects to be able to meet these obligations from existing resources. Further information on the net cash position of the Group is provided in the table at the foot of the Consolidated Statement of Cash Flows.

Giving due consideration to the nature of the Group's business and underlying investments, and 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, the expectation of further returns of surplus cash to Shareholders, and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis.

### Report on Remuneration and Related Matters

This report covers the remuneration of all directors during the year and also related matters such as directors' interests in shares. It therefore covers issues which are the concern of the Board as a whole, in addition to those dealt with by the Remuneration and Nominations Committee.

#### Remuneration and Nominations Policy

The Remuneration and Nominations Committee's current policy is that remuneration and benefit levels should be sufficiently competitive, having regard to remuneration practice in the industry and the countries in which the Group invests, to attract, incentivise, reward and retain the non-executive directors and senior executives.

Under their respective non-executive director appointment letters, each of Rob Campbell, Mike Allen, Scott Malcolm and Blake Nixon is entitled to receive an annual fee. In addition, Rob Campbell is paid a fee for his responsibilities as Chairman of the Company, Blake Nixon is entitled to fees in respect of his specific pensions roles and for his responsibilities as chairman of the Audit, Finance and Risk Committee, and Scott Malcolm is entitled to receive fees for his responsibilities as chairman of the Investment Committee and Remuneration and Nominations Committee. Rob Campbell, Mike Allen and Blake Nixon are also entitled to receive remuneration for their respective directorships in subsidiary or associate companies. None of these appointment letters contain a notice period or termination provisions. Removal of the directors would be governed by the Articles of Association of the Company.

Sir Ron Brierley is entitled under his non-executive director appointment letter to receive an annual fee and to participate in the Company's share option scheme and staff bonus scheme, although there is no current or future intention to grant any options or award any bonus under these schemes. The appointment is terminable by the Company on giving 18 months' written notice or by Sir Ron Brierley giving 12 months' written notice. In case of early termination by the Company or if Sir Ron Brierley is removed as a director within 2 years of a change in control of the Company he is entitled to compensation equal to two times the bonus received in the preceding two financial years and the unexpired portion of his notice period.

Waldemar Szlezak has elected not to be paid a fee.

In the light of the realisation of value strategy currently in place the Remuneration and Nominations Committee has approved amendments to the contracts of employment of certain senior employees to ensure that their services are retained and that they remain motivated until the conclusion of this exercise. These amendments have resulted in the implementation of long term incentive schemes. The charge for staff incentives and future redundancy costs arising in the year was £6 million (2011: £6 million) (of which £2 million (2011: £2 million) is dependent on the outcome of the asset realisation exercise). The costs associated with these schemes are being spread over the period the related services are provided.

In addition, Coats operates a Capital Incentive Plan ('CIP'). This plan is intended to reward the Coats senior executive team for delivering growth in the value of GPG's investment. This scheme is being accounted for by GPG as a cash-settled share-based compensation scheme. The Board deemed there was no liability at the year end arising from this scheme and as a consequence the accrual of £1.7 million held at 31 December 2012 has been released. Subsequent to the year end, the Remuneration and Nominations Committee has agreed to amend substantially this scheme to make it retention based covering the period 2013 to 2015 and this is expected to give rise to a charge to the Income Statement during that period.

No formal performance evaluation process for senior executives was undertaken in 2012 or has been undertaken in 2013.

## Corporate Governance continued

### Details of individual director's emoluments (audited figures)

The emoluments of the directors of GPG who served during the year are set out below. These amounts comprise emoluments payable to the directors by GPG and its subsidiaries for the years ended 31 December 2012 and 31 December 2011.

|                                                        | Sir Ron Brierley<br>£ | B A Nixon<br>(Note i)<br>£ | Dr G H Weiss<br>(to 30 April<br>2011)<br>£ |
|--------------------------------------------------------|-----------------------|----------------------------|--------------------------------------------|
| Directors' fees                                        | 79,933                | 155,030                    | –                                          |
| <b>TOTAL REMUNERATION IN 2012</b>                      | <b>79,933</b>         | <b>155,030</b>             | <b>–</b>                                   |
| Remuneration package                                   | –                     | 277,574                    | 325,527                                    |
| Directors' fees                                        | 82,459                | 74,980                     | –                                          |
| Compensation for early termination of service contract | –                     | 555,149                    | 976,581                                    |
| Pension contributions                                  | –                     | (9,900)                    | (9,455)                                    |
| <b>TOTAL PAYMENTS IN 2011</b>                          | <b>82,459</b>         | <b>897,803</b>             | <b>1,292,653</b>                           |
| Leave Accrual                                          | –                     | 12,025                     | –                                          |
| Gains on Options                                       | 148,833               | 393,753                    | 297,666                                    |
| Pension Contributions                                  | –                     | 9,900                      | 9,455                                      |
| <b>TOTAL REMUNERATION IN 2011</b>                      | <b>231,292</b>        | <b>1,313,481</b>           | <b>1,599,774</b>                           |

|                                   | R J Campbell<br>£ | M N Allen<br>£ | S L Malcolm<br>(from 19 January<br>2012)<br>£ |
|-----------------------------------|-------------------|----------------|-----------------------------------------------|
| Directors' fees                   | 315,093           | 263,591        | 159,850                                       |
| <b>TOTAL REMUNERATION IN 2012</b> | <b>315,093</b>    | <b>263,591</b> | <b>159,850</b>                                |
| Directors' fees                   | 330,946           | 282,666        | –                                             |
| <b>TOTAL REMUNERATION IN 2011</b> | <b>330,946</b>    | <b>282,666</b> | <b>–</b>                                      |

During 2011, whilst he was a director of the Company, Dr Weiss was a director of certain other companies. He was permitted to retain his earnings from these directorships which totalled A\$51,131 (unaudited).

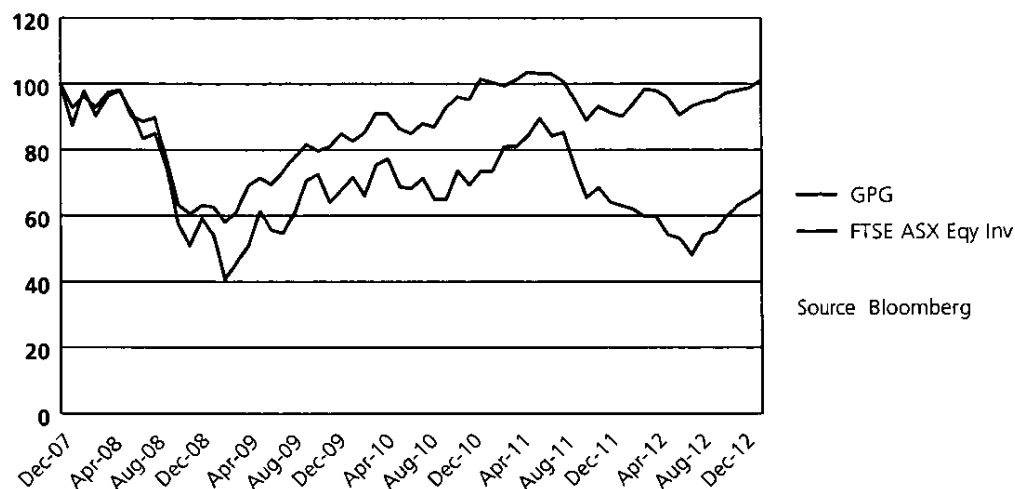
### Holiday and Long Service Leave (audited figures)

The executive directors were contractually entitled to Long Service Leave in accordance with the Long Service Leave Act 1955 of New South Wales, Australia, and to holiday accruals where they took fewer holidays than their contractual entitlements. These rights ceased at the point the directors were no longer employed on an executive basis. The amounts paid during 2011 on the cessation of these roles were: Dr Weiss £1,433,081, and Blake Nixon £850,007.

#### Notes

- B A Nixon ceased to be an executive director on 30 June 2011, becoming a non-executive director on 1 July 2011.
- Where directors' emoluments are denominated in foreign currencies these amounts have been translated at the relevant year end exchange rate.
- Share options were previously awarded to directors in accordance with the terms of the Group's share option schemes, the terms of which have been approved by shareholders. The Company does not operate any other long term incentive schemes for directors.
- All pension contributions are in respect of defined contribution arrangements.
- Of their total salary, as determined by the Remuneration and Nominations Committee each year, executive directors were entitled to direct that a variable amount be paid in a form other than cash.
- Where executive directors were required by GPG to act as a director of an investee company outside the Parent Group, it was the Group's policy that director's fees from such entities were paid directly to the Group.
- Included within directors' fees are: £65,093 (2011: £113,479) for R J Campbell; £132,500 (2011: £67,827) for M N Allen; and £48,750 (2011: £33,750) for B A Nixon in respect of services provided to other group companies; and £22,083 (2011: £11,250) for B A Nixon in respect of services provided to Group Pension Schemes.
- The tables set out above, and these notes, comprise the auditable part of the directors' remuneration report, being the disclosures required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

**Performance Graph (unaudited) – Total Shareholder Return**  
**5-year Comparison of GPG shares against FTSE All-Share Equity Investment Instruments Index**



The graph above shows the total shareholder return performance for the Company since January 2008 in comparison to the FTSE All-Share Equity Investment Instruments Index. This comparator has been selected as it is considered by the Board to be a relevant benchmark by which to judge the performance of the directors in delivering value to shareholders.

#### DIRECTORS' INTERESTS

The interests of the directors who held office at the end of the year, and their connected persons (if any), in the shares, options, and listed securities of GPG and its subsidiaries as at 31 December 2012 and 2011, are set out below.

#### Guinness Peat Group plc

| Ordinary 5p shares                 | 31 December<br>2012 | 31 December<br>2011 |
|------------------------------------|---------------------|---------------------|
| M N Allen                          | –                   | –                   |
| Sir Ron Brierley                   | 31,882,765          | 51,882,765          |
| R J Campbell                       | 95,043              | 95,043              |
| S L Malcolm (from 19 January 2012) | 200,000             | –                   |
| B A Nixon                          | 17,811,406          | 17,811,406          |

Since the year end to the date of this Annual Report Rob Campbell has acquired 323,298 shares in the Company and Sir Ron Brierley has sold 10,000,000 shares. There have been no other transactions since the year end.

## Corporate Governance continued

### Options under the Group's share option schemes

|                           | 31 December<br>2012<br>Number | Effective<br>exercise price<br>(pence per<br>share) | 31 December<br>2011<br>Number<br>(Restated) | Effective<br>exercise price<br>(pence per<br>share)<br>(Restated) | Exercise period      |
|---------------------------|-------------------------------|-----------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------|----------------------|
| <b>Ordinary 5p shares</b> |                               |                                                     |                                             |                                                                   |                      |
| <b>Sir Ron Brierley</b>   |                               |                                                     |                                             |                                                                   |                      |
| Ordinary                  | 767,245                       | 40 0912                                             | 779,483                                     | 39 4618                                                           | 23 04 07 to 23 04 14 |
| Ordinary                  | 697,495                       | 48 2294                                             | 708,620                                     | 47 4723                                                           | 09 03 08 to 09 03 15 |
| Ordinary                  | 396,302                       | 51 0967                                             | 402,623                                     | 50 2946                                                           | 24 10 08 to 24 10 15 |
| Ordinary                  | 237,779                       | 56 6480                                             | 241,572                                     | 55 7587                                                           | 15 03 09 to 15 03 16 |
| Ordinary                  | 360,278                       | 56 5534                                             | 366,025                                     | 55 6656                                                           | 09 03 10 to 09 03 17 |
| Ordinary                  | 196,515                       | 49 9961                                             | 199,650                                     | 49 2112                                                           | 10 04 11 to 10 04 18 |
| <b>B A Nixon</b>          |                               |                                                     |                                             |                                                                   |                      |
| Ordinary                  | 2,291,740                     | 40 0912                                             | 2,338,452                                   | 39 4618                                                           | 23 04 07 to 23 04 14 |
| Ordinary                  | 2,179,682                     | 48 2294                                             | 2,214,447                                   | 47 4723                                                           | 09 03 08 to 09 03 15 |
| Ordinary                  | 1,981,528                     | 51 0967                                             | 2,013,133                                   | 50 2946                                                           | 24 10 08 to 24 10 15 |
| Ordinary                  | 951,131                       | 56,6480                                             | 966,301                                     | 55 7587                                                           | 15 03 09 to 15 03 16 |
| Ordinary                  | 1,441,115                     | 56 5534                                             | 1,484,100                                   | 55 6656                                                           | 09 03 10 to 09 03 17 |
| Ordinary                  | 1,310,104                     | 49 9961                                             | 1,331,000                                   | 49 2112                                                           | 10 04 11 to 10 04 18 |

As a result of the reduction of share capital effected by a Scheme of Arrangement in 2011 the number of options held by all members of the Company's Share Options Schemes and the associated effective exercise price were amended in 2012, resulting in the restated figures in the above table

No options granted to directors were exercised or lapsed during the year. No such options have been exercised or have lapsed since the year end. From the year end to the date of approval of this Annual Report, no further options have been granted.

The middle market price of GPG's shares at 31 December 2012 was 30 5p and the range during the year was 20 5p to 30 5p.

By order of the Board

Chris Healy

Company Secretary

Guinness Peat Group plc

Incorporated and Registered in England No. 103548



26 March 2013

## Directors' Responsibilities Statement

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

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

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

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

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

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

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

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

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

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

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

### Responsibility statement

We confirm that to the best of our knowledge

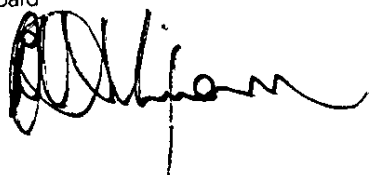
- 1 the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- 2 the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

B A Nixon

Director

26 March 2013



# Independent Auditor's Report

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

We have audited the Group and parent company financial statements (the "financial statements") of Guinness Peat Group plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the Company balance sheet, the consolidated statement of changes in equity, the consolidated statement of cashflows and the related notes 1 to 38. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's net profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion

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

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

We have nothing to report in respect of the following

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors' statement, contained within the Corporate Governance report in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration



Sharon Thorne (Senior statutory auditor) for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor  
London, United Kingdom

26 March 2013

# GPG Financial Statements

## Consolidated Income Statement

Year ended 31 December

|                                                                                                                |       | 2012<br>IFRS<br>£m |             |              | 2011<br>IFRS<br>£m |       |        |
|----------------------------------------------------------------------------------------------------------------|-------|--------------------|-------------|--------------|--------------------|-------|--------|
|                                                                                                                | Notes | Coats              | Other       | Total        | Coats              | Other | Total* |
| <b>Continuing operations</b>                                                                                   |       |                    |             |              |                    |       |        |
| <b>Revenue</b>                                                                                                 | 2 3   | <b>1,043</b>       | <b>–</b>    | <b>1,043</b> | 1,059              | –     | 1,059  |
| Cost of sales                                                                                                  |       | <b>(755)</b>       | <b>–</b>    | <b>(755)</b> | (687)              | –     | (687)  |
| <b>Gross profit</b>                                                                                            |       | <b>288</b>         | <b>–</b>    | <b>288</b>   | 372                | –     | 372    |
| Interest receivable – Parent Group                                                                             |       | <b>–</b>           | <b>6</b>    | <b>6</b>     | –                  | 5     | 5      |
| Distribution costs                                                                                             |       | <b>(177)</b>       | <b>–</b>    | <b>(177)</b> | (181)              | –     | (181)  |
| Administrative expenses                                                                                        |       | <b>(114)</b>       | <b>(23)</b> | <b>(137)</b> | (110)              | (31)  | (141)  |
| Other operating (expense)/income                                                                               |       | <b>(1)</b>         | <b>1</b>    | <b>–</b>     | –                  | 1     | 1      |
| <b>Operating (loss)/profit (2012 £34m profit excluding impact of EC fine)</b>                                  | 2 4   | <b>(4)</b>         | <b>(16)</b> | <b>(20)</b>  | 81                 | (25)  | 56     |
| Interest and other income – Coats                                                                              |       | <b>2</b>           | <b>–</b>    | <b>2</b>     | 5                  | –     | 5      |
| Share of profit of joint ventures                                                                              | 15a)  | <b>1</b>           | <b>–</b>    | <b>1</b>     | 1                  | –     | 1      |
| Finance costs (net) (Coats – 2012 including £23m cost in respect of the EC fine (2011 £nil))                   | 2 6   | <b>(35)</b>        | <b>(14)</b> | <b>(49)</b>  | (10)               | (17)  | (27)   |
| <b>(Loss)/profit before taxation from continuing operations (2012 £11m profit excluding impact of EC fine)</b> | 5     | <b>(36)</b>        | <b>(30)</b> | <b>(66)</b>  | 77                 | (42)  | 35     |
| Tax on (loss)/profit from continuing operations                                                                | 8     | <b>(29)</b>        | <b>–</b>    | <b>(29)</b>  | (28)               | –     | (28)   |
| <b>(Loss)/profit for the year from continuing operations</b>                                                   |       | <b>(65)</b>        | <b>(30)</b> | <b>(95)</b>  | 49                 | (42)  | 7      |
| <b>Discontinued operations</b>                                                                                 |       |                    |             |              |                    |       |        |
| Profit/(loss) from discontinued operations                                                                     | 2 34  | <b>(2)</b>         | <b>97</b>   | <b>95</b>    | (1)                | (9)   | (10)   |
| <b>(LOSS)/PROFIT FOR THE YEAR</b>                                                                              |       | <b>(67)</b>        | <b>67</b>   | <b>–</b>     | 48                 | (51)  | (3)    |
| <b>Attributable to</b>                                                                                         |       |                    |             |              |                    |       |        |
| <b>EQUITY HOLDERS OF THE PARENT</b>                                                                            |       | <b>(72)</b>        | <b>69</b>   | <b>(3)</b>   | 44                 | (43)  | 1      |
| Non-controlling interests                                                                                      |       | <b>5</b>           | <b>(2)</b>  | <b>3</b>     | 4                  | (8)   | (4)    |
|                                                                                                                |       | <b>(67)</b>        | <b>67</b>   | <b>–</b>     | 48                 | (51)  | (3)    |

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

Basic & diluted 10 (0 15)p 0 03p

### (LOSS)/EARNINGS PER ORDINARY SHARE FROM CONTINUING OPERATIONS

Basic & diluted 10 (6 15)p 0 14p

\*Restated to reflect the results of Gosford Quarry Holdings Ltd Touch Holdings Ltd CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34)

Notes on pages 45 to 94 form part of these financial statements

## Consolidated Statement of Comprehensive Income

Year ended 31 December

|                                                                                | 2012<br>IFRS<br>£m | 2011<br>IFRS<br>£m |
|--------------------------------------------------------------------------------|--------------------|--------------------|
| Profit/(loss) for the year                                                     | –                  | (3)                |
| Losses on revaluation of fixed asset investments                               | (13)               | (27)               |
| Losses on cash flow hedges                                                     | (3)                | (5)                |
| Exchange losses on translation of foreign operations                           | (13)               | (23)               |
| Actuarial losses on retirement benefit schemes (note 9)*                       | (40)               | (215)              |
| Tax on items taken directly to equity                                          | 4                  | 9                  |
| <b>Net loss recognised directly in equity</b>                                  | <b>(65)</b>        | <b>(261)</b>       |
| <b>Transfers</b>                                                               |                    |                    |
| Transferred to profit or loss on sale or impairment of fixed asset investments | (40)               | (43)               |
| Transferred to profit or loss on sale of businesses                            | (39)               | (3)                |
| Transferred to profit or loss on cash flow hedges                              | 3                  | 4                  |
| <b>Net transfers to profit or loss</b>                                         | <b>(76)</b>        | <b>(42)</b>        |
| <b>TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR</b>                                | <b>(141)</b>       | <b>(306)</b>       |
| <b>Attributable to</b>                                                         |                    |                    |
| <b>EQUITY HOLDERS OF THE PARENT</b>                                            | <b>(143)</b>       | <b>(301)</b>       |
| Non-controlling interests                                                      | 2                  | (5)                |
|                                                                                | <b>(141)</b>       | <b>(306)</b>       |

\*Actuarial losses/gains are not subsequently recycled through the Income Statement

Notes on pages 45 to 94 form part of these financial statements

## Consolidated Statement of Financial Position

31 December

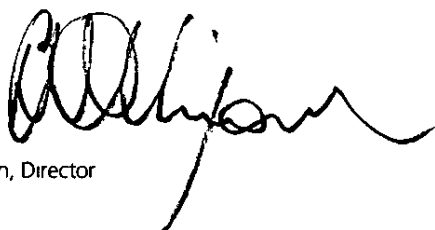
|                                                           |       | 2012<br>IFRS<br>£m | 2011<br>IFRS<br>£m |
|-----------------------------------------------------------|-------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>                                 | Notes |                    |                    |
| Intangible assets                                         | 13    | 160                | 169                |
| Property, plant and equipment                             | 14    | 226                | 303                |
| Investments in associated undertakings                    | 15    | –                  | 186                |
| Investments in joint ventures                             | 15    | 9                  | 62                 |
| Fixed asset investments                                   | 15    | 2                  | 203                |
| Deferred tax assets                                       | 17    | 9                  | 12                 |
| Pension surpluses                                         | 9     | 21                 | 20                 |
| Trade and other receivables                               | 19    | 13                 | 10                 |
|                                                           |       | <b>440</b>         | <b>965</b>         |
| <b>CURRENT ASSETS</b>                                     |       |                    |                    |
| Inventories                                               | 18    | 191                | 216                |
| Trade and other receivables                               | 19    | 190                | 217                |
| Current asset investments                                 | 20    | 10                 | 10                 |
| Derivative financial instruments                          | 21    | 2                  | 2                  |
| Cash and cash equivalents                                 |       | 322                | 276                |
|                                                           |       | <b>715</b>         | <b>721</b>         |
| Assets held for sale                                      | 34    | 273                | 215                |
| <b>TOTAL ASSETS</b>                                       |       | <b>1,428</b>       | <b>1,901</b>       |
| <b>CURRENT LIABILITIES</b>                                |       |                    |                    |
| Trade and other payables                                  | 22    | 220                | 250                |
| Current income tax liabilities                            |       | 10                 | 5                  |
| Capital Notes                                             | 24    | –                  | 214                |
| Other borrowings                                          | 25    | 27                 | 50                 |
| Derivative financial instruments                          | 23    | 4                  | 6                  |
| Provisions                                                | 27    | 46                 | 63                 |
|                                                           |       | <b>307</b>         | <b>588</b>         |
| <b>NET CURRENT ASSETS</b>                                 |       | <b>408</b>         | <b>133</b>         |
| Liabilities directly associated with assets held for sale | 34    | 37                 | 94                 |
| <b>NON-CURRENT LIABILITIES</b>                            |       |                    |                    |
| Trade and other payables                                  | 22    | 15                 | 13                 |
| Deferred tax liabilities                                  | 26    | 25                 | 25                 |
| Other borrowings                                          | 25    | 278                | 216                |
| Derivative financial instruments                          | 23    | 3                  | 3                  |
| Retirement benefit obligations                            |       |                    |                    |
| Funded schemes                                            | 9     | 225                | 221                |
| Unfunded schemes                                          | 9     | 61                 | 54                 |
| Provisions                                                | 27    | 19                 | 21                 |
|                                                           |       | <b>626</b>         | <b>553</b>         |
| <b>TOTAL LIABILITIES</b>                                  |       | <b>970</b>         | <b>1,235</b>       |
| <b>NET ASSETS</b>                                         |       | <b>458</b>         | <b>666</b>         |

Notes on pages 45 to 94 form part of these financial statements

## Consolidated Statement of Financial Position – continued

31 December

|                                        | Notes | 2012<br>IFRS<br>£m | 2011<br>IFRS<br>£m |
|----------------------------------------|-------|--------------------|--------------------|
| <b>EQUITY</b>                          |       |                    |                    |
| Share capital                          | 29    | 78                 | 81                 |
| Translation reserve                    | 30    | 89                 | 139                |
| Unrealised gains reserve               | 30    | 14                 | 64                 |
| Capital reduction reserve              | 30    | 93*                | 118                |
| Other reserves                         | 30    | 112                | 109                |
| Retained earnings                      | 30    | 48**               | 91                 |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>      |       | <b>434</b>         | <b>602</b>         |
| Non-controlling interests              | 30    | 24                 | 64                 |
| <b>TOTAL EQUITY</b>                    |       | <b>458</b>         | <b>666</b>         |
| <br><b>Net asset backing per share</b> |       | <br><b>27 73p</b>  | <br>37 10p         |



B A Nixon, Director

Approved by the Board on 26 March 2013

Company Registration No 103548

\* Reported in the Preliminary Results announcement as £118 million

\*\* Reported in the Preliminary Results announcement as £23 million

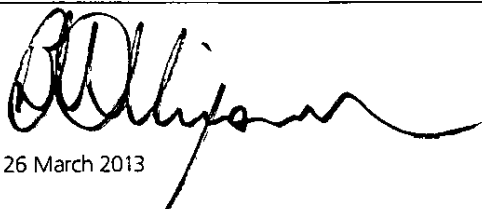
Notes on pages 45 to 94 form part of these financial statements

## Company Balance Sheet

31 December

|                                                               |       | 2012<br>UK GAAP<br>£m | 2011<br>UK GAAP<br>£m |
|---------------------------------------------------------------|-------|-----------------------|-----------------------|
| <b>FIXED ASSETS</b>                                           | Notes |                       |                       |
| Investments                                                   | 15    | 371                   | 445                   |
| <b>TOTAL FIXED ASSETS</b>                                     |       | <b>371</b>            | <b>445</b>            |
| <b>CURRENT ASSETS</b>                                         |       |                       |                       |
| Loans to subsidiary undertakings                              |       | 3                     | 8                     |
| <b>TOTAL CURRENT ASSETS</b>                                   |       | <b>3</b>              | <b>8</b>              |
| <b>CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR</b>          |       |                       |                       |
| Loans from subsidiary undertakings                            | 22    | 112                   | 230                   |
| <b>TOTAL CURRENT LIABILITIES</b>                              |       | <b>112</b>            | <b>230</b>            |
| <b>NET CURRENT LIABILITIES</b>                                |       | <b>(109)</b>          | <b>(222)</b>          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                  |       | <b>262</b>            | <b>223</b>            |
| <b>CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b> |       |                       |                       |
| Trade and other creditors                                     | 22    | –                     | 2                     |
| <b>PROVISIONS FOR LIABILITIES</b>                             | 27    | <b>1</b>              | <b>1</b>              |
| <b>NET ASSETS</b>                                             |       | <b>261</b>            | <b>220</b>            |
| <b>CAPITAL AND RESERVES</b>                                   |       |                       |                       |
| Share capital                                                 | 29    | 78                    | 81                    |
| Capital redemption reserve                                    | 30    | 4                     | 1                     |
| Unrealised gains reserve                                      | 30    | –                     | 2                     |
| Capital reduction reserve                                     | 30    | 93                    | 118                   |
| Share options reserve                                         | 30    | 8                     | 8                     |
| Other reserves                                                | 30    | 1                     | 1                     |
| Profit and loss account                                       | 30    | 77                    | 9                     |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>                             |       | <b>261</b>            | <b>220</b>            |

B A Nixon, Director



Approved by the Board on 26 March 2013

Company Registration No 103548

Notes on pages 45 to 94 form part of these financial statements

## Consolidated Statement of Changes in Equity

Year ended 31 December

|                                             | Share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Translation<br>reserve<br>£m | Unrealised<br>gains<br>reserve<br>£m | Capital<br>reduction<br>reserve<br>£m | Other<br>reserves<br>£m | Retained<br>earnings<br>£m | Total<br>£m | Non-<br>controlling<br>interests<br>£m |
|---------------------------------------------|------------------------|-----------------------------------|------------------------------|--------------------------------------|---------------------------------------|-------------------------|----------------------------|-------------|----------------------------------------|
| Balance as at 1 January 2011                | 91                     | 62                                | 165                          | 124                                  | –                                     | 270                     | 281                        | 993         | 69                                     |
| Total comprehensive expense<br>for the year | –                      | –                                 | (26)                         | (60)                                 | –                                     | (1)                     | (214)                      | (301)       | (5)                                    |
| Return of capital                           | (11)                   | (63)                              | –                            | –                                    | 118                                   | (161)                   | 37                         | (80)        | –                                      |
| Dividends                                   | –                      | –                                 | –                            | –                                    | –                                     | –                       | (18)                       | (18)        | (4)                                    |
| Scrip dividend alternative                  | 1                      | (1)                               | –                            | –                                    | –                                     | –                       | 6                          | 6           | –                                      |
| Other share issues                          | –                      | 2                                 | –                            | –                                    | –                                     | –                       | –                          | 2           | –                                      |
| Share based payments                        | –                      | –                                 | –                            | –                                    | –                                     | 1                       | –                          | 1           | –                                      |
| Dilution of investment in subsidiaries      | –                      | –                                 | –                            | –                                    | –                                     | –                       | (1)                        | (1)         | 4                                      |
| <b>BALANCE AS AT 31 DECEMBER 2011</b>       | <b>81</b>              | <b>–</b>                          | <b>139</b>                   | <b>64</b>                            | <b>118</b>                            | <b>109</b>              | <b>91</b>                  | <b>602</b>  | <b>64</b>                              |
| Total comprehensive expense<br>for the year | –                      | –                                 | (50)                         | (50)                                 | –                                     | –                       | (43)                       | (143)       | 2                                      |
| Share buy-backs (note 29)                   | (3)                    | –                                 | –                            | –                                    | (25)*                                 | 3                       | –**                        | (25)        | –                                      |
| Dividends                                   | –                      | –                                 | –                            | –                                    | –                                     | –                       | –                          | –           | (4)                                    |
| Disposal of subsidiaries                    | –                      | –                                 | –                            | –                                    | –                                     | –                       | –                          | –           | (38)                                   |
| <b>BALANCE AS AT 31 DECEMBER 2012</b>       | <b>78</b>              | <b>–</b>                          | <b>89</b>                    | <b>14</b>                            | <b>93</b>                             | <b>112</b>              | <b>48</b>                  | <b>434</b>  | <b>24</b>                              |

\* Reported in the Preliminary Results announcement as £nil

\*\* Reported in the Preliminary Results announcement as £(25) million

Notes on pages 45 to 94 form part of these financial statements

## Consolidated Statement of Cash Flows

Year ended 31 December

|                                                                                       | Notes | 2012<br>IFRS<br>£m | 2011<br>IFRS*<br>£m |
|---------------------------------------------------------------------------------------|-------|--------------------|---------------------|
| <b>Cash inflow/(outflow) from operating activities</b>                                |       |                    |                     |
| Net cash inflow from operating activities**                                           | 33a)  | 134                | 203                 |
| Interest paid***                                                                      |       | (58)               | (39)                |
| Taxation paid                                                                         | 33b)  | (24)               | (28)                |
| <b>Net cash generated by operating activities</b>                                     |       | <b>52</b>          | <b>136</b>          |
| <b>Cash inflow/(outflow) from investing activities</b>                                |       |                    |                     |
| Investment income                                                                     | 33c)  | 6                  | 13                  |
| Capital expenditure and financial investment                                          | 33d)  | (27)               | (38)                |
| Acquisitions and disposals                                                            | 33e)  | 193                | (1)                 |
| <b>Net cash generated by/(absorbed in) investing activities</b>                       |       | <b>172</b>         | <b>(26)</b>         |
| <b>Cash outflow from financing activities</b>                                         |       |                    |                     |
| Net buy-back/capital return of Ordinary Shares                                        | 33f)  | (24)               | (78)                |
| Equity dividends paid to the Company's shareholders                                   | 33g)  | –                  | (12)                |
| Dividends paid to non-controlling interests                                           |       | (5)                | (4)                 |
| Net decrease in borrowings                                                            | 33h)  | (142)              | (45)                |
| <b>Net cash absorbed in financing activities</b>                                      |       | <b>(171)</b>       | <b>(139)</b>        |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                           |       | <b>53</b>          | <b>(29)</b>         |
| Cash and cash equivalents at beginning of the year                                    |       | 259                | 287                 |
| Exchange (losses)/gains on cash and cash equivalents                                  |       | (1)                | 1                   |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>                                   |       | <b>311</b>         | <b>259</b>          |
| <b>Cash and cash equivalents per the Consolidated Statement of Financial Position</b> |       |                    |                     |
| Cash and cash equivalents per the Consolidated Statement of Financial Position        |       | 322                | 276                 |
| Bank overdrafts                                                                       | 25    | (11)               | (17)                |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>                                   |       | <b>311</b>         | <b>259</b>          |
| <b>Summary of net cash/(debt)</b>                                                     |       |                    |                     |
| – Parent Group**** cash                                                               |       | 243                | 200                 |
| – Capital Notes                                                                       | 24    | –                  | (214)               |
| – Parent Group cash/(net debt)                                                        |       | 243                | (14)                |
| – Other group cash                                                                    |       | 79                 | 76                  |
| – Other group debt                                                                    | 25    | (305)              | (266)               |
| <b>Total group net cash/(debt)</b>                                                    |       | <b>17</b>          | <b>(204)</b>        |

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

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

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

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

Notes on pages 45 to 94 form part of these financial statements

# Notes to Financial Statements

## 1. Principal Accounting Policies

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

### GROUP

#### CRITICAL ACCOUNTING POLICIES

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

#### *Pension and other employee benefit obligations*

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

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

#### *Carrying value of brands*

The carrying value of brands is dependent on the calculation of discounted cash flows arising from the cash-generating units to which those assets relate. Changes in either the discount rates applied or the estimated cash flows could materially change the carrying values of these intangible assets.

#### *Carrying value of fixed asset investments, associated undertakings and joint ventures*

Fixed asset investments are carried at fair value, and temporary fluctuations in value are dealt with through the unrealised gains reserve. Where a reduction in value of a particular fixed asset investment is deemed to be permanent, the write-down is dealt with as an impairment through the income statement.

Associated undertakings and joint ventures are carried at cost plus the Group's share of post-acquisition changes in the associated undertakings' and joint ventures' net assets. To the extent that the fair value of any particular associated undertaking or joint venture is less than its book value, any shortfall deemed to be permanent is written down as an impairment through the income statement.

The fixed asset investments, associated undertakings and joint ventures of the Parent Group have been classified at 31 December 2012 as held for sale.

#### A) ACCOUNTING CONVENTION AND FORMAT

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

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

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

#### B) BASIS OF PREPARATION

##### Subsidiaries

The principal subsidiaries are listed in note 16. Subsidiaries are consolidated from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group, or the subsidiary meets the criteria to be classified as held for sale. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control. Where necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by the Group.

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

These financial statements incorporate the consolidated results of Coats Group Limited ("CGL") as adjusted to account for the Coats capital incentive plan ("CIP"), on a basis consistent with that required to be adopted by GPG, and for the inclusion in the statement of financial position both at 31 December 2011 and 2012 of \$6 million (£4 million) of intangible assets held at the GPG level but which are associated with its acquisition of Coats.

CIC Australia Ltd ("CIC") and the investment operations of the Parent Group have been reclassified as discontinued operations (see note 34). The assets and liabilities of CIC and the Parent Group's investment activities at 31 December 2012 are accounted for in accordance with the policy applying to disposal groups. No opening statement of financial position has been presented for the prior year in these financial statements as it is unchanged from that previously reported.

### **Associated undertakings**

The Group's investment in associated undertakings is accounted for under the equity method of accounting. These are entities in which the Group has the ability to exert significant influence and which are neither subsidiaries nor joint ventures. The investment in associated undertakings is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associated undertakings, less any impairment in value. The income statement reflects the share of the results of operations of associated undertakings, together with any negative goodwill arising on acquisition and any impairment recorded by the Group.

If the Group's share of losses exceeds the carrying amount of an associated undertaking, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the undertaking.

Where there has been a change recognised directly in the associated undertaking's equity, the Group recognises its share of any changes and discloses this, where applicable, in the statement of comprehensive income.

### **Joint ventures**

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

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

### **Going concern**

Giving due consideration to the nature of the Group's business and underlying investments, and 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, 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. Further detail is contained in the Corporate Governance report on page 31.

### **C) FOREIGN CURRENCIES**

#### **Foreign currency translation**

The Company's functional and the Group's presentation currency is the Pound Sterling. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the period end. All currency differences on monetary items are taken to the income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until

disposal of the net investment, at which time they are recycled through the income statement.

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

### **Group companies**

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

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

### **D) SEGMENT REPORTING**

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

### **E) PROPERTY, PLANT AND EQUIPMENT**

#### **Owned assets**

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

#### **Leased assets**

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### **Subsequent expenditure**

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

#### **Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment, and major components that are accounted for

separately. Land is not depreciated. The estimated useful lives are as follows:

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

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

## F) INTANGIBLE ASSETS

### Goodwill

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

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

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

Negative goodwill is recognised immediately in the income statement.

### Brands

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

### Other intangibles

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

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

### Impairment of assets

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

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

## Research and development

All research costs are expensed as incurred.

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

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

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

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

## G) FINANCIAL INSTRUMENTS

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

### Financial assets

#### (i) Investments

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

Net gains and losses recognised in profit or loss on disposal of investments do not incorporate dividends or interest receivable on those assets.

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

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

The fixed asset investments of the Parent Group have been classified at 31 December 2012 as held for sale.

#### (ii) Cash and cash equivalents

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

#### (iii) Trade and other receivables

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

**Financial liabilities**

**(i) Trade payables**

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

**(ii) Borrowings**

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

**(iii) Compound instruments**

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

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

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

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

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

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

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

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

**(v) Fair value hedges**

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

**(vi) Cash flow hedges**

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

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

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

**H) REVENUE**

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

**(i) Sales of goods**

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

**(ii) Sales of services**

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

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

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

**(iv) Investment revenue**

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

**I) INVENTORIES**

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

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

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

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

**J) EMPLOYEE BENEFITS**

**(i) Retirement benefit obligations**

The retirement benefit obligation recognised in the statement of financial position in respect of defined employee benefits is the present value of the defined benefit obligation at the period end less the fair value of any associated assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on the interest rates of high-quality corporate bonds that are

denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged directly to equity in the year in which they arise. Past service costs are recognised immediately in income, unless the changes to the benefits are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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

## (ii) Share-based compensation

### Cash-settled

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

### Equity-settled

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

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

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

## (iv) Termination benefits

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

## K) TAXATION

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

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

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

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

## L) INVESTMENT INCOME

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

## M) BORROWING COSTS

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

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

**N) PROVISIONS**

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

**O) ONEROUS CONTRACTS**

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

**P) RESTRUCTURING**

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

**Q) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

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

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

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

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

**R) CASH FLOW**

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

Acquisitions and disposals of fixed asset investments, associated undertakings and joint ventures, together with dividends received from associated undertakings and joint ventures, in respect of the Group's operating subsidiaries, remain within cash flows from investing activities, as these are strategic investments by those subsidiaries rather than being held for investment gains.

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

During the year, the Group has adopted the following standards and interpretations, none of which has had any material impact on the amounts shown in these financial statements, but may impact on future transactions and arrangements.

Amendments to IFRS 7 ("Disclosures – transfers of financial assets"),

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

Amendments to IAS 12 ("Deferred Tax – recovery of underlying assets").

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

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

From the year beginning 1 January 2013

IFRS 10 ("Consolidated financial statements"),

IFRS 11 ("Joint arrangements"),

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

IFRS 13 ("Fair value measurement"),

IAS 19 (revised) ("Employee benefits"),

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

IAS 28 (revised) ("Investments in associates and joint ventures"), and improvements to IFRSs 2009-2011 cycle.

From the year beginning 1 January 2014

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

From the year beginning 1 January 2015

IFRS 9 ("Financial instruments")

Other than IAS 19, none of the above standards/amendments to existing standards is expected to have any significant future impact on the Group's accounts. IAS 19 will impact the measurement of the various components representing movements in the defined benefit obligations and associated disclosures, but not the Group's total obligation. Had the amended IAS 19 been applied in 2012, the estimated full year impact would have been a reduction in operating profit of £5 million and an increase in net interest costs of £22 million. This would have led to a corresponding improvement of £27 million in the actuarial loss arising within reserves.

**COMPANY**

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

**A) FIXED ASSETS – INVESTMENTS**

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

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

**B) DERIVATIVE FINANCIAL INSTRUMENTS**

The use of financial derivatives is regulated by the Board in accordance with its risk management strategy

Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the profit and loss account

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

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

**C) INVESTMENT INCOME**

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

**D) SHARE-BASED COMPENSATION****Cash-settled**

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

**Equity-settled**

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

**E) TAXATION**

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

**F) DIVIDENDS PAYABLE**

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

**2. Segmental Analysis****OPERATING SEGMENTS**

| <b>2012</b>                                         | Thread<br>manufacture<br>£m | Investment<br>£m | Fruit/produce<br>distribution<br>(see note (iii))<br>£m | Unallocated<br>£m | Non-<br>operating<br>(see note (ii))<br>£m | Total<br>£m |
|-----------------------------------------------------|-----------------------------|------------------|---------------------------------------------------------|-------------------|--------------------------------------------|-------------|
| <b>a) Revenue</b>                                   |                             |                  |                                                         |                   |                                            |             |
| External sales                                      | 1,043                       | -                | -                                                       | -                 | -                                          | 1,043       |
| <b>b) Results</b>                                   |                             |                  |                                                         |                   |                                            |             |
| <i>Continuing operations</i>                        |                             |                  |                                                         |                   |                                            |             |
| Operating loss                                      | (4)                         | (16)             | -                                                       | -                 | -                                          | (20)        |
| Interest income – Coats                             | 2                           | -                | -                                                       | -                 | -                                          | 2           |
| Share of joint ventures' results                    | 1                           | -                | -                                                       | -                 | -                                          | 1           |
| Finance costs (net)                                 | (35)                        | (14)             | -                                                       | -                 | -                                          | (49)        |
| Tax charge                                          | (29)                        | -                | -                                                       | -                 | -                                          | (29)        |
| Loss after tax                                      | (65)                        | (30)             | -                                                       | -                 | -                                          | (95)        |
| <i>Discontinued operations</i>                      |                             |                  |                                                         |                   |                                            |             |
| Profit/(loss) after tax                             | (2)                         | 78               | 25                                                      | (6)               | -                                          | 95          |
| <b>c) Assets and Liabilities</b>                    |                             |                  |                                                         |                   |                                            |             |
| Assets                                              | 793                         | 258              | -                                                       | -                 | 377                                        | 1,428       |
| <i>includes share of joint ventures' net assets</i> | 9                           | -                | -                                                       | -                 | -                                          | 9           |
| Liabilities                                         | (483)                       | (93)             | -                                                       | -                 | (394)                                      | (970)       |
| <b>d) Other disclosures</b>                         |                             |                  |                                                         |                   |                                            |             |
| Tangible fixed assets – additions                   | 17                          | 2                | -                                                       | 2                 | -                                          | 21          |
| Intangible assets – additions                       | 4                           | -                | -                                                       | -                 | -                                          | 4           |
| Impairment of tangible fixed assets                 | (2)                         | -                | -                                                       | (7)               | -                                          | (9)         |
| Depreciation charge                                 | (30)                        | -                | -                                                       | (1)               | -                                          | (31)        |
| Impairment of intangible assets                     | (1)                         | -                | -                                                       | -                 | -                                          | (1)         |
| Amortisation charge                                 | (4)                         | -                | -                                                       | -                 | -                                          | (4)         |
| Investment impairment                               | -                           | (3)              | -                                                       | -                 | (10)                                       | (13)        |

**2011 (restated to reflect Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations)**

|                                                                                  |       |      |      |      |       |         |
|----------------------------------------------------------------------------------|-------|------|------|------|-------|---------|
| <b>a) Revenue</b>                                                                |       |      |      |      |       |         |
| External sales                                                                   | 1,059 | -    | -    | -    | -     | 1,059   |
| <b>b) Results</b>                                                                |       |      |      |      |       |         |
| <i>Continuing operations</i>                                                     |       |      |      |      |       |         |
| Operating profit/(loss)                                                          | 81    | (25) | -    | -    | -     | 56      |
| Interest income – Coats                                                          | 5     | -    | -    | -    | -     | 5       |
| Share of joint ventures' results                                                 | 1     | -    | -    | -    | -     | 1       |
| Finance costs (net)                                                              | (10)  | (17) | -    | -    | -     | (27)    |
| Tax charge                                                                       | (28)  | -    | -    | -    | -     | (28)    |
| Profit/(loss) after tax                                                          | 49    | (42) | -    | -    | -     | 7       |
| <i>Discontinued operations</i>                                                   |       |      |      |      |       |         |
| (Loss)/profit after tax                                                          | (1)   | 4    | (17) | 4    | -     | (10)    |
| <b>c) Assets and Liabilities</b>                                                 |       |      |      |      |       |         |
| Assets                                                                           | 846   | 416  | -    | 79   | 560   | 1,901   |
| <i>includes share of associated undertakings' and joint ventures' net assets</i> | 10    | 212  | -    | 26   | -     | 248     |
| Liabilities                                                                      | (508) | (84) | -    | (20) | (623) | (1,235) |

## 2. Segmental Analysis – continued

### OPERATING SEGMENTS – continued

| 2011 – continued                    | Thread<br>manufacture<br>£m | Investment<br>£m | Fruit/produce<br>distribution<br>(see note (iii))<br>£m | Unallocated<br>£m | Non-<br>operating<br>(see note (i))<br>£m | Total<br>£m |
|-------------------------------------|-----------------------------|------------------|---------------------------------------------------------|-------------------|-------------------------------------------|-------------|
| <b>d) Other disclosures</b>         |                             |                  |                                                         |                   |                                           |             |
| Tangible fixed assets – additions   | 30                          | –                | 6                                                       | 11                | –                                         | 47          |
| Intangible assets – additions       | 4                           | –                | –                                                       | –                 | –                                         | 4           |
| Impairment of tangible fixed assets | (2)                         | –                | (5)                                                     | –                 | –                                         | (7)         |
| Depreciation charge                 | (31)                        | –                | (6)                                                     | (1)               | –                                         | (38)        |
| Impairment of intangible assets     | –                           | –                | (8)                                                     | –                 | –                                         | (8)         |
| Amortisation charge                 | (5)                         | –                | (1)                                                     | –                 | –                                         | (6)         |
| Investment impairment               | –                           | (10)             | –                                                       | –                 | –                                         | (10)        |

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

### GEOGRAPHIC SEGMENTS

|                                     | External revenue |                      | 2012<br>Non-current<br>assets<br>(see note (ii))<br>£m | External revenue* |                      | 2011<br>Non-current<br>assets<br>(see note (ii))<br>£m |
|-------------------------------------|------------------|----------------------|--------------------------------------------------------|-------------------|----------------------|--------------------------------------------------------|
|                                     | By origin<br>£m  | By destination<br>£m |                                                        | By origin<br>£m   | By destination<br>£m |                                                        |
| United Kingdom                      | 16               | 21                   | 159                                                    | 17                | 20                   | 154                                                    |
| Europe, Middle East & Africa (EMEA) |                  |                      |                                                        |                   |                      |                                                        |
| – Germany                           | 62               | 41                   | 13                                                     | 66                | 42                   | 14                                                     |
| – Rest of EMEA                      | 188              | 202                  | 45                                                     | 194               | 212                  | 50                                                     |
| Americas                            |                  |                      |                                                        |                   |                      |                                                        |
| – USA                               | 177              | 174                  | 21                                                     | 157               | 154                  | 24                                                     |
| – Rest of North America             | 15               | 18                   | –                                                      | 12                | 16                   | –                                                      |
| – Brazil                            | 89               | 89                   | 22                                                     | 117               | 116                  | 34                                                     |
| Asia & Rest of world                |                  |                      |                                                        |                   |                      |                                                        |
| – New Zealand                       | 1                | 1                    | –                                                      | 1                 | 2                    | 79                                                     |
| – India                             | 104              | 102                  | 27                                                     | 114               | 108                  | 30                                                     |
| – China & Hong Kong                 | 101              | 94                   | 30                                                     | 99                | 95                   | 38                                                     |
| – Australia                         | 4                | 4                    | –                                                      | 4                 | 4                    | 207                                                    |
| – Other                             | 286              | 297                  | 79                                                     | 278               | 290                  | 90                                                     |
| <b>Total</b>                        | <b>1,043</b>     | <b>1,043</b>         | <b>396</b>                                             | <b>1,059</b>      | <b>1,059</b>         | <b>720</b>                                             |

#### Notes

(i) Non-operating items comprise

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

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

(iii) In 2011 Turners & Growers Ltd, which comprised the fruit/produce distribution segment, was reclassified as a discontinued operation.

\*Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd and CIC Australia Ltd (which together comprise the "Unallocated" operating segment) and Parent Group investment operations as discontinued operations (note 34).

## Notes to Financial Statements continued

### 3. Revenue

| Year ended 31 December                          | 2012<br>£m | 2011*<br>£m |
|-------------------------------------------------|------------|-------------|
| <b>CONTINUING OPERATIONS</b>                    |            |             |
| Sale of industrial thread, speciality and zips  | 741        | 764         |
| Sale of consumer textiles crafts                | 302        | 295         |
| Total sales – continuing operations             | 1,043      | 1,059       |
| Interest receivable and other investment income | 8          | 10          |
|                                                 | 1,051      | 1,069       |
| <b>DISCONTINUED OPERATIONS</b>                  |            |             |
| Sale of investments                             | –          | 8           |
| Food/produce distribution                       | 75         | 320         |
| Unallocated                                     | 33         | 74          |
| Total sales – discontinued operations           | 108        | 402         |
| Interest receivable and other investment income | 7          | 21          |
|                                                 | 115        | 423         |
| Total                                           | 1,166      | 1,492       |

### 4. Operating (Loss)/Profit

| Year ended 31 December                                                        | 2012<br>£m   | 2011*<br>£m  |
|-------------------------------------------------------------------------------|--------------|--------------|
| Cost of sales (2012 including £54 million in respect of EC fine)              | (755)        | (687)        |
| Gross profit                                                                  | 288          | 372          |
| Interest receivable – Parent Group                                            | 6            | 5            |
| Distribution costs                                                            | (177)        | (181)        |
| Administrative expenses**                                                     | (137)        | (141)        |
| <b>Net operating expenses</b>                                                 | <b>(314)</b> | <b>(322)</b> |
| Other operating income                                                        | –            | 1            |
| <b>Operating (loss)/profit (2012 £34m profit excluding impact of EC fine)</b> | <b>(20)</b>  | <b>56</b>    |

\*Includes amortisation of other intangibles of £4 million (2011 £5 million), and impairment of brands £1 million (2011 £Nil)

\*Restated to reflect the results of Gosford Quarry Holdings Ltd Touch Holdings Ltd CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34)

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

| Year ended 31 December                                             | 2012<br>£m | 2011*<br>£m |
|--------------------------------------------------------------------|------------|-------------|
| (Loss)/profit before taxation is stated after charging/(crediting) |            |             |
| Amortisation of intangible assets                                  | 4          | 5           |
| Impairment of intangible assets                                    | 1          | –           |
| Depreciation of property, plant and equipment                      | 30         | 32          |
| Impairment of property, plant and equipment                        | 2          | 2           |
| Fees charged by Deloitte LLP                                       |            |             |
| Group audit fees                                                   |            |             |
| – Fees payable for the audit of the Company's annual accounts**    | –          | –           |
| – Fees payable for the audit of the Company's subsidiaries         | 2          | 2           |
| Other Deloitte LLP services                                        |            |             |
| – Taxation services                                                | 1          | 1           |
| Total fees charged by Deloitte LLP                                 | 3          | 3           |
| Operating lease rentals                                            |            |             |
| – Plant and equipment                                              | 5          | 5           |
| – Other                                                            | 10         | 10          |
| Cash-settled share-based payments                                  | (2)        | 2           |
| Research and development expenditure                               | 1          | 1           |
| Bad and doubtful debts                                             | 2          | 1           |
| Net foreign exchange losses/(gains)                                | 2          | (1)         |
| Rental income from land and buildings                              | (2)        | (1)         |
| Inventory as a material component of cost of sales                 | 407        | 450         |
| Inventory write-downs to net realisable value                      | 6          | 6           |
| European Commission fine, including interest                       | 76         | –           |

\*\*The audit fee payable to the Company's auditor for the audit of the Company's annual accounts is £179,600 (2011: £196,500)

The Company-only charge for equity-settled share-based payments is £23,000 (2011: £120,000)

## 6. Finance Costs (net)

| Year ended 31 December                           | 2012<br>£m  | 2011*<br>£m |
|--------------------------------------------------|-------------|-------------|
| Interest payable on bank loans and overdrafts    | (21)        | (20)        |
| European Commission fine interest costs          | (23)        | –           |
| Net finance income on employee benefits (note 9) | 10          | 12          |
| Unwinding of discount on provisions (note 27)    | (1)         | –           |
| Interest payable on Capital Notes                | (14)        | (19)        |
|                                                  | <u>(49)</u> | <u>(27)</u> |

\*Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34)

**7. Employee Information**

| Year ended 31 December                                                                                            | 2012          | 2011*         |
|-------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>The average monthly number of employees (including executive directors) in the Group during the year was</b>   |               |               |
| Continuing operations                                                                                             |               |               |
| Corporate                                                                                                         | 17            | 23            |
| Thread manufacture                                                                                                | 21,501        | 22,179        |
|                                                                                                                   | <b>21,518</b> | <b>22,202</b> |
| Discontinued operations                                                                                           | 566           | 1,789         |
| <b>TOTAL NUMBER OF EMPLOYEES</b>                                                                                  | <b>22,084</b> | <b>23,991</b> |
| <b>The average monthly number of employees (including executive directors) in the Company during the year was</b> |               |               |
| Corporate                                                                                                         | 9             | 13            |

**Employment costs – all employees including directors\***

| Year ended 31 December                                             | 2012<br>£m | Group<br>2011*<br>£m | 2012<br>£m | Company<br>2011<br>£m |
|--------------------------------------------------------------------|------------|----------------------|------------|-----------------------|
| <b>Continuing operations</b>                                       |            |                      |            |                       |
| Aggregate gross wages and salaries                                 | 215        | 216                  | 3          | 5                     |
| Employer's national insurance contributions or foreign equivalents | 26         | 26                   | –          | –                     |
| Employer's pension cost**                                          | 10         | 8                    | –          | –                     |
|                                                                    | <b>251</b> | <b>250</b>           | <b>3</b>   | <b>5</b>              |
| <b>Discontinued operations*</b>                                    |            |                      |            |                       |
| Aggregate gross wages and salaries                                 | 24         | 56                   |            |                       |
| Employer's national insurance contributions or foreign equivalents | 1          | 2                    |            |                       |
| Employer's pension contributions                                   | 1          | 1                    |            |                       |
|                                                                    | <b>26</b>  | <b>59</b>            |            |                       |
|                                                                    | <b>277</b> | <b>309</b>           |            |                       |

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

The Parent Group has an accrued liability for holiday pay and long service leave, for staff excluding directors, of £2 million (2011 £2 million)

**Directors' emoluments**

|                                         |          |          |
|-----------------------------------------|----------|----------|
| Aggregate emoluments                    | 1        | 2        |
| Gains made on exercise of share options | –        | 1        |
| Compensation for loss of office         | –        | 1        |
| Pension contributions                   | –        | –        |
|                                         | <b>1</b> | <b>4</b> |

\*Restated to reflect the results of Gosford Quarry Holdings Ltd Touch Holdings Ltd CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34) and to include Turners & Growers Ltd as a discontinued operation for the full year to 31 December 2011

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

| Year ended 31 December                                                                            | 2012<br>£m  | 2011*<br>£m |
|---------------------------------------------------------------------------------------------------|-------------|-------------|
| Current tax                                                                                       |             |             |
| UK corporation tax at 24.5% (2011: 26.5%)                                                         | –           | –           |
| Overseas tax charge                                                                               | (29)        | (24)        |
|                                                                                                   | <b>(29)</b> | <b>(24)</b> |
| Deferred tax charge                                                                               | –           | (4)         |
| <b>TOTAL TAX CHARGE</b>                                                                           | <b>(29)</b> | <b>(28)</b> |
| The tax charge for the year can be reconciled as follows                                          |             |             |
| (Loss)/profit before taxation from continuing operations                                          | <b>(66)</b> | 35          |
| (Loss)/profit before taxation multiplied by standard rate of tax in the UK of 24.5% (2011: 26.5%) | <b>(16)</b> | 9           |
| Impact of differences in overseas tax rates                                                       | 1           | –           |
| European Commission fine                                                                          | 19          | –           |
| Other non-deductible expenditure                                                                  | 6           | 5           |
| Impact of tax losses and other unprovided deferred tax                                            | 19          | 14          |
| <b>TOTAL TAX CHARGE</b>                                                                           | <b>29</b>   | <b>28</b>   |

The tax charge for both years reflects the impact of unrelieved losses in certain subsidiary undertakings

## 9. Employee Benefit Costs

The charge for the year in respect of the Group's continuing operations' defined contribution pension arrangements was £2 million (2011: £3 million)

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

**The following disclosures are made solely for the purposes of IAS 19 – Employee Benefits and do not include information in respect of schemes operated by associated undertakings and joint ventures**

The Group has opted for all of the plans it operates to recognise all actuarial gains and losses immediately via the Statement of Comprehensive Income ("SCI")

The previous full actuarial valuations of each scheme have been updated to 31 December 2012 by qualified independent actuaries. The major assumptions used by the actuaries were (in nominal terms) as follows:

|                                         | 31 December<br>2012 | 31 December<br>2011 | 31 December<br>2010 |
|-----------------------------------------|---------------------|---------------------|---------------------|
| Discount rate                           | 4.08%               | 4.60%               | 5.46%               |
| Mortality assumption                    | various             | various             | various             |
| Rate of salary increase                 | 3.27%               | 3.37%               | 3.81%               |
| Rate of increase to pensions in payment | various             | various             | various             |
| Rate of RPI inflation                   | 2.61%               | 2.73%               | 3.23%               |
| Rate of CPI inflation, where applicable | 2.02%               | 2.00%               | 2.50%               |

The assumptions used in determining the overall expected return on the schemes' assets have been set with reference to yields available on government bonds and appropriate risk margins.

\*Restated to reflect the results of Gosford Quarry Holdings Ltd and Touch Holdings Ltd as discontinued operations (note 34)

## 9. Employee Benefit Costs – continued

The assets in the schemes and the expected rates of return were

|           | Long term<br>expected rate<br>of return at<br>31 December<br>2012 | Value as at<br>31 December<br>2012<br>£m | Long term<br>expected rate<br>of return at<br>31 December<br>2011 | Value as at<br>31 December<br>2011<br>£m | Long term<br>expected rate<br>of return at<br>31 December<br>2010 | Value as at<br>31 December<br>2010<br>£m |
|-----------|-------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------------|------------------------------------------|
| Equities* | 8.2%                                                              | 771                                      | 8.3%                                                              | 697                                      | 8.2%                                                              | 685                                      |
| Bonds*    | 3.7%                                                              | 966                                      | 4.2%                                                              | 888                                      | 4.9%                                                              | 1,091                                    |
| Other     | 4.7%                                                              | 156                                      | 3.7%                                                              | 203                                      | 6.3%                                                              | 90                                       |
|           |                                                                   | <b>1,893</b>                             |                                                                   | <b>1,788</b>                             |                                                                   | <b>1,866</b>                             |

\* Valued at quoted market prices

The amounts recognised in the statement of financial position are as follows

| 31 December                                   | 2012<br>£m     | 2011<br>£m | 2010<br>£m |
|-----------------------------------------------|----------------|------------|------------|
| Present value of funded obligations           | <b>(2,081)</b> | (1,967)    | (1,842)    |
| Fair value of assets                          | <b>1,893</b>   | 1,788      | 1,866      |
| (Deficit)/surplus                             | <b>(188)</b>   | (179)      | 24         |
| Effect of surplus cap                         | <b>(26)</b>    | (26)       | (37)       |
| <b>NET FUNDED DEFICIT</b>                     | <b>(214)</b>   | (205)      | (13)       |
| Present value of unfunded obligations         |                |            |            |
| Current (within provisions)                   | <b>(6)</b>     | (7)        | (6)        |
| Non-current                                   | <b>(61)</b>    | (54)       | (56)       |
|                                               | <b>(67)</b>    | (61)       | (62)       |
| <b>Net pension liability in balance sheet</b> | <b>(281)</b>   | (266)      | (75)       |
| Funded schemes                                |                |            |            |
| – surpluses                                   |                |            |            |
| current (within other receivables)            | <b>4</b>       | 3          | 2          |
| non-current                                   | <b>21</b>      | 20         | 31         |
|                                               | <b>25</b>      | 23         | 33         |
| – deficits                                    |                |            |            |
| current (within provisions)                   | <b>(14)</b>    | (7)        | (9)        |
| non-current                                   | <b>(225)</b>   | (221)      | (37)       |
|                                               | <b>(239)</b>   | (228)      | (46)       |
| <b>NET FUNDED DEFICIT</b>                     | <b>(214)</b>   | (205)      | (13)       |

## 9. Employee Benefit Costs – continued

### ROLL FORWARD OF NET PENSION LIABILITY

|                                                  | 2012<br>£m   | 2011<br>£m   | 2010<br>£m  |
|--------------------------------------------------|--------------|--------------|-------------|
| Opening position 1 January                       | (266)        | (75)         | (70)        |
| <b>Income Statement (pre tax)</b>                |              |              |             |
| Current service cost                             | (7)          | (8)          | (9)         |
| Credit in respect of past service cost           | –            | 3            | –           |
| Net finance income on employee benefits          | 10           | 12           | 10          |
| Net income                                       | 3            | 7            | 1           |
| <b>Reserves</b>                                  |              |              |             |
| Net actuarial loss                               | (40)         | (226)        | (12)        |
| Impact of surplus cap                            | –            | 11           | (5)         |
|                                                  | (40)         | (215)        | (17)        |
| Net exchange gains                               | 1            | –            | 2           |
| Net reserve movement                             | (39)         | (215)        | (15)        |
| <b>Cash flow</b>                                 |              |              |             |
| Employer contributions – current service         | 6            | 6            | 5           |
| Employer contributions – Coats UK recovery plan  | 7            | 7            | –           |
| Employer contributions – Staveley recovery plan* | 6            | –            | –           |
| Unfunded benefits paid by employer               | 1            | 4            | 4           |
| Total cash outflow                               | 20           | 17           | 9           |
| <b>Transfers</b>                                 | 1            | –            | –           |
| <b>Closing position 31 December</b>              | <b>(281)</b> | <b>(266)</b> | <b>(75)</b> |

\* Includes £5 million one-off

### Reconciliation of opening and closing balances of the present value of the defined benefit obligations (funded and unfunded)

| Year ended 31 December                   | 2012<br>£m | 2011<br>£m | 2010<br>£m |
|------------------------------------------|------------|------------|------------|
| Benefit obligations at beginning of year | 2,028      | 1,904      | 1,834      |
| Current service cost                     | 7          | 8          | 9          |
| Interest cost – unwinding of discount    | 91         | 100        | 105        |
| Contributions by scheme participants     | –          | 1          | 1          |
| Actuarial loss                           | 149        | 143        | 74         |
| Benefits paid                            | (127)      | (124)      | (121)      |
| Past service cost                        | –          | (3)        | –          |
| Transfer from other provisions           | 8          | –          | –          |
| Exchange (gain)/loss                     | (8)        | (1)        | 2          |
| Benefit obligations at end of year       | 2,148      | 2,028      | 1,904      |
| Less unfunded obligations                | (67)       | (61)       | (62)       |
| Funded obligations                       | 2,081      | 1,967      | 1,842      |

## Notes to Financial Statements continued

### 9. Employee Benefit Costs – continued

Reconciliation of opening and closing balances of the fair value of scheme assets (all funded)

| Year ended 31 December                           | 2012<br>£m   | 2011<br>£m | 2010<br>£m |
|--------------------------------------------------|--------------|------------|------------|
| Fair value of scheme assets at beginning of year | <b>1,788</b> | 1,866      | 1,796      |
| Expected return on scheme assets                 | <b>101</b>   | 112        | 115        |
| Actuarial gain/(loss)                            | <b>109</b>   | (83)       | 62         |
| Contributions by employers                       | <b>19</b>    | 13         | 5          |
| Contributions by scheme participants             | –            | 1          | 1          |
| Benefits paid                                    | <b>(126)</b> | (120)      | (117)      |
| Transfers                                        | <b>9</b>     | –          | –          |
| Exchange (loss)/gain                             | <b>(7)</b>   | (1)        | 4          |
| Fair value of plan assets at end of year         | <b>1,893</b> | 1,788      | 1,866      |
| Actual return on assets held                     | <b>211</b>   | 29         | 175        |

The amounts recognised in the income statement are

| Year ended 31 December                         | 2012<br>£m  | 2011<br>£m | 2010<br>£m |
|------------------------------------------------|-------------|------------|------------|
| Interest on obligation – unwinding of discount | <b>(91)</b> | (100)      | (105)      |
| Expected return on scheme assets               | <b>101</b>  | 112        | 115        |
| Net finance income (note 6)                    | <b>10</b>   | 12         | 10         |
| Current service cost                           | <b>(7)</b>  | (8)        | (9)        |
| Credit in respect of past service cost         | –           | 3          | –          |
| Total net income                               | <b>3</b>    | 7          | 1          |

Actuarial (losses)/gains recognised in the SCI

| Year ended 31 December                                   | 2012<br>£m  | 2011<br>£m | 2010<br>£m |
|----------------------------------------------------------|-------------|------------|------------|
| Actuarial losses                                         | <b>(40)</b> | (226)      | (12)       |
| Limit on recognition of assets (movement in surplus cap) | –           | 11         | (5)        |
|                                                          | <b>(40)</b> | (215)      | (17)       |

History of scheme assets, employee benefit obligations and experience adjustments

| Year ended 31 December                                                     | 2012<br>£m     | 2011<br>£m | 2010<br>£m | 2009<br>£m | 2008<br>£m |
|----------------------------------------------------------------------------|----------------|------------|------------|------------|------------|
| Defined benefit obligations                                                | <b>(2,148)</b> | (2,028)    | (1,904)    | (1,834)    | (1,715)    |
| Scheme assets                                                              | <b>1,893</b>   | 1,788      | 1,866      | 1,796      | 1,713      |
| Net liability in the schemes (before effect of surplus cap)                | <b>(255)</b>   | (240)      | (38)       | (38)       | (2)        |
| Experience (losses)/gains arising on scheme liabilities                    | <b>(10)</b>    | (8)        | (19)       | 27         | (7)        |
| Experience gains/(losses) arising on scheme assets                         | <b>109</b>     | (83)       | 62         | 126        | (307)      |
| Cumulative actuarial (loss)/gain recognised in SCI since adoption of IAS19 | <b>(283)</b>   | (243)      | (28)       | (11)       | 2          |

## 9. Employee Benefit Costs – continued

Employer contributions of £19 million for 2012 include £4 million in respect of the Group's unfunded pension schemes

The triennial valuation of the Coats UK scheme as at April 2009 showed an actuarial funding deficit of £101 million, which equated to a funding level of 92%. A ten year recovery plan was agreed with the scheme, under which contributions of £9 million per annum have been payable since January 2011, including £2 million per annum for future service. This recovery plan falls for review as a consequence of the next triennial valuation as at April 2012. A triennial valuation of Staveley was undertaken as at April 2011 and was finalised during 2012, resulting in an actuarial funding deficit of £20 million, which equated to a funding level of 90%. A recovery plan was agreed, comprised of an initial payment of £5 million followed by monthly payments commencing from July 2012 amounting to £1.3 million per annum for eight years. The last triennial valuation of the Brunel scheme, as at April 2010, was completed in 2011. This did not result in a requirement to make contributions. Total contributions to be paid during 2013 in respect of GPG defined benefit plans, including to the Coats UK scheme, are estimated to be £22 million.

### Sensitivity analysis

The impact on scheme liabilities at 31 December 2012 from changes in key actuarial assumptions would be as follows

|                                 | Increase/(decrease)<br>in scheme liabilities<br>£m |
|---------------------------------|----------------------------------------------------|
| 0.1% increase in discount rate  | (27)                                               |
| 0.1% increase in inflation rate | 19                                                 |

The impact of equivalent decreases in the above assumptions would be the reverse of the increase/(decrease) in scheme liabilities shown above.

The life expectancies of members under the mortality assumption of the most significant pension scheme in the Group, Coats UK, are as follows

|                           | 2012 |        | 2011 |        |
|---------------------------|------|--------|------|--------|
|                           | Male | Female | Male | Female |
| Now aged 60               | 25.5 | 27.5   | 24.8 | 27.4   |
| Aged 60 in 20 years' time | 27.5 | 29.5   | 26.8 | 29.4   |

A one-year increase/(decrease) in the combined Group schemes' average life expectancy would increase/(decrease) scheme liabilities at 31 December 2012 by £66 million (2011: £58 million).

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

Basic (loss)/earnings per share ("EPS") is calculated by dividing the loss attributable to equity holders of the parent company of £3 million (2011: profit £1 million) by the weighted average number of Ordinary Shares in issue during the year of 1,618,876,707 (2011: 1,715,466,321).

For the calculation of diluted EPS, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares, being share options granted to employees and Capital Notes. There is no difference between the calculated basic loss (2011: profit) and diluted loss (2011: profit) for the year.

| Year ended 31 December                                    | Loss<br>2012<br>£m | Shares<br>2012<br>m | Amount<br>per share<br>(pence) |
|-----------------------------------------------------------|--------------------|---------------------|--------------------------------|
| <b>Continuing and discontinued operations</b>             |                    |                     |                                |
| Loss attributable to equity holders of the parent company | (3)                | 1,619               | (0.15)p*                       |

## 10. Earnings per Ordinary Share – continued

| Year ended 31 December                                        | Earnings<br>2011<br>£m | Shares<br>2011<br>m | Amount<br>per share<br>(pence) |
|---------------------------------------------------------------|------------------------|---------------------|--------------------------------|
| <b>Continuing and discontinued operations</b>                 |                        |                     |                                |
| Earnings attributable to equity holders of the parent company | 1                      | 1,715               | 0 03p*                         |
| <hr/>                                                         |                        |                     |                                |
| Year ended 31 December                                        | Loss<br>2012<br>£m     | Shares<br>2012<br>m | Amount<br>per share<br>(pence) |
| <b>Continuing operations</b>                                  |                        |                     |                                |
| Loss attributable to equity holders of the parent company     | (100)                  | 1,619               | (6 15)p*                       |
| <hr/>                                                         |                        |                     |                                |
| Year ended 31 December                                        | Earnings<br>2011<br>£m | Shares<br>2011<br>m | Amount<br>per share<br>(pence) |
| <b>Continuing operations</b>                                  |                        |                     |                                |
| Earnings attributable to equity holders of the parent company | 2                      | 1,715               | 0 14p*                         |

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

The comparatives for the year ended 31 December 2011 have been adjusted to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34)

## 11. Dividends

No dividend in respect of the year ending 31 December 2012 was paid to GPG shareholders during the year (2011 1 15p per share)

## 12. Results of Holding Company

A profit of £68 million (2011 loss of £20 million) has been dealt with in the accounts of the Company. As permitted by Section 408 of the Companies Act 2006, the Company has not published a separate profit and loss account in these financial statements

## 13. Intangible Assets

### GROUP

| <b>COST</b>                                  | Goodwill<br>£m | Brands<br>£m | Other<br>intangibles<br>£m | Total<br>£m |
|----------------------------------------------|----------------|--------------|----------------------------|-------------|
| At 1 January 2011                            | 17             | 159          | 75                         | 251         |
| Currency translation differences             | –              | 1            | (2)                        | (1)         |
| Additions                                    | –              | –            | 4                          | 4           |
| Transfer to non-current assets held for sale | (5)            | –            | (12)                       | (17)        |
| Disposals                                    | –              | –            | (2)                        | (2)         |
| <b>AT 31 DECEMBER 2011</b>                   | <b>12</b>      | <b>160</b>   | <b>63</b>                  | <b>235</b>  |
| Currency translation differences             | –              | (7)          | (2)                        | (9)         |
| Additions                                    | –              | –            | 4                          | 4           |
| Transfer to non-current assets held for sale | (11)           | –            | (14)                       | (25)        |
| Disposals                                    | –              | –            | (1)                        | (1)         |
| <b>AT 31 DECEMBER 2012</b>                   | <b>1</b>       | <b>153</b>   | <b>50</b>                  | <b>204</b>  |

| <b>CUMULATIVE AMOUNTS CHARGED</b>                                            | Goodwill<br>£m | Brands<br>£m | Other<br>intangibles<br>£m | Total<br>£m |
|------------------------------------------------------------------------------|----------------|--------------|----------------------------|-------------|
| At 1 January 2011                                                            | 10             | 1            | 60                         | 71          |
| Currency translation differences                                             | –              | –            | (2)                        | (2)         |
| Impairment charge for the year (re discontinued operations)                  | 8              | –            | –                          | 8           |
| Amortisation charge for the year (including £1m re discontinued operations)  | –              | –            | 6                          | 6           |
| Transfer to non-current assets held for sale                                 | (8)            | –            | (7)                        | (15)        |
| Disposals                                                                    | –              | –            | (2)                        | (2)         |
| <b>AT 31 DECEMBER 2011</b>                                                   | <b>10</b>      | <b>1</b>     | <b>55</b>                  | <b>66</b>   |
| Currency translation differences                                             | –              | –            | (2)                        | (2)         |
| Impairment charge for the year (including £Nil re discontinued operations)   | –              | 1            | –                          | 1           |
| Amortisation charge for the year (including £Nil re discontinued operations) | –              | –            | 4                          | 4           |
| Transfer to non-current assets held for sale                                 | (10)           | –            | (14)                       | (24)        |
| Disposals                                                                    | –              | –            | (1)                        | (1)         |
| <b>AT 31 DECEMBER 2012</b>                                                   | <b>–</b>       | <b>2</b>     | <b>42</b>                  | <b>44</b>   |

|                                           |          |            |          |            |
|-------------------------------------------|----------|------------|----------|------------|
| <b>NET BOOK VALUE AT 31 DECEMBER 2012</b> | <b>1</b> | <b>151</b> | <b>8</b> | <b>160</b> |
| NET BOOK VALUE AT 31 DECEMBER 2011        | 2        | 159        | 8        | 169        |

Contained within brands at 31 December 2012 is a balance of £151 million (2011: £159 million) relating to Coats. There is no foreseeable limit to the net cash inflows from royalties, which are generated from continued sales of thread resulting from the Coats brands, and those brands are therefore assessed as having indefinite useful lives. The recoverable amount of these brands has been estimated using the value in use and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on management's recent budgets and forecasts covering the period to 31 December 2015, applying a pre-tax weighted average cost of capital of the relevant business unit and a terminal value including no growth.

The pre-tax weighted average cost of capital applied above is 10.4%. An increase of 7.9% in the weighted average cost of capital would reduce the recoverable amount to book value.

**14. Property, Plant and Equipment****GROUP**

|                                                                             | Land and<br>buildings<br>£m | Plant and<br>equipment<br>£m | Vehicles<br>and office<br>equipment<br>£m | Land for<br>development<br>£m | Total<br>£m |
|-----------------------------------------------------------------------------|-----------------------------|------------------------------|-------------------------------------------|-------------------------------|-------------|
| <b>COST</b>                                                                 |                             |                              |                                           |                               |             |
| At 1 January 2011                                                           | 244                         | 571                          | 114                                       | 43                            | 972         |
| Currency translation differences                                            | (8)                         | (28)                         | (4)                                       | –                             | (40)        |
| Acquisition of subsidiaries                                                 | 8                           | 4                            | –                                         | –                             | 12          |
| Additions (including £3m interest capitalised)                              | 6                           | 26                           | 6                                         | 9                             | 47          |
| Transfer to current assets                                                  | –                           | –                            | –                                         | (14)                          | (14)        |
| Transfer to non-current assets held for sale                                | (102)                       | (87)                         | (16)                                      | –                             | (205)       |
| Reclassifications                                                           | –                           | (1)                          | 1                                         | –                             | –           |
| Disposals                                                                   | –                           | (13)                         | (8)                                       | –                             | (21)        |
| <b>AT 31 DECEMBER 2011</b>                                                  | <b>148</b>                  | <b>472</b>                   | <b>93</b>                                 | <b>38</b>                     | <b>751</b>  |
| Currency translation differences                                            | (5)                         | (21)                         | (3)                                       | (1)                           | (30)        |
| Additions (including £1m interest capitalised)                              | 5                           | 11                           | 4                                         | 1                             | 21          |
| Transfer to current assets                                                  | –                           | –                            | –                                         | (2)                           | (2)         |
| Transfer to non-current assets held for sale                                | (15)                        | (12)                         | (1)                                       | (20)                          | (48)        |
| Reclassifications                                                           | –                           | 1                            | (1)                                       | (16)*                         | (16)        |
| Disposals                                                                   | (2)                         | (10)                         | (3)                                       | –                             | (15)        |
| <b>AT 31 DECEMBER 2012</b>                                                  | <b>131</b>                  | <b>441</b>                   | <b>89</b>                                 | <b>–</b>                      | <b>661</b>  |
|                                                                             |                             |                              |                                           |                               |             |
|                                                                             | Land and<br>buildings<br>£m | Plant and<br>equipment<br>£m | Vehicles<br>and office<br>equipment<br>£m | Land for<br>development<br>£m | Total<br>£m |
| <b>ACCUMULATED DEPRECIATION</b>                                             |                             |                              |                                           |                               |             |
| At 1 January 2011                                                           | 81                          | 372                          | 99                                        | –                             | 552         |
| Currency translation differences                                            | (3)                         | (18)                         | (2)                                       | –                             | (23)        |
| Impairment charge for the year (including £5m re discontinued operations)   | 5                           | 2                            | –                                         | –                             | 7           |
| Depreciation charge for the year (including £6m re discontinued operations) | 6                           | 28                           | 4                                         | –                             | 38          |
| Transfer to non-current assets held for sale                                | (25)                        | (68)                         | (13)                                      | –                             | (106)       |
| Disposals                                                                   | –                           | (12)                         | (8)                                       | –                             | (20)        |
| <b>AT 31 DECEMBER 2011</b>                                                  | <b>64</b>                   | <b>304</b>                   | <b>80</b>                                 | <b>–</b>                      | <b>448</b>  |
| Currency translation differences                                            | (3)                         | (13)                         | (4)                                       | –                             | (20)        |
| Impairment charge for the year (including £7m re discontinued operations)   | 2                           | 2                            | –                                         | 5                             | 9           |
| Depreciation charge for the year (including £1m re discontinued operations) | 4                           | 23                           | 4                                         | –                             | 31          |
| Transfer to non-current assets held for sale                                | (6)                         | (8)                          | (1)                                       | (5)                           | (20)        |
| Disposals                                                                   | (1)                         | (9)                          | (3)                                       | –                             | (13)        |
| <b>AT 31 DECEMBER 2012</b>                                                  | <b>60</b>                   | <b>299</b>                   | <b>76</b>                                 | <b>–</b>                      | <b>435</b>  |
| <b>NET BOOK VALUE AT 31 DECEMBER 2012</b>                                   | <b>71</b>                   | <b>142</b>                   | <b>13</b>                                 | <b>–</b>                      | <b>226</b>  |
| <b>NET BOOK VALUE AT 31 DECEMBER 2011</b>                                   | <b>84</b>                   | <b>168</b>                   | <b>13</b>                                 | <b>38</b>                     | <b>303</b>  |

\* Land for development reclassification to interests in joint ventures (note 15a))

## 14. Property, Plant and Equipment – continued

|                                                  | Land and<br>buildings<br>£m | Plant and<br>equipment<br>£m | Vehicles<br>and office<br>equipment<br>£m | Land for<br>development<br>£m | Total<br>£m |
|--------------------------------------------------|-----------------------------|------------------------------|-------------------------------------------|-------------------------------|-------------|
| <b>Assets charged as security for borrowings</b> |                             |                              |                                           |                               |             |
| <b>31 December 2012</b>                          | <b>–</b>                    | <b>3</b>                     | <b>–</b>                                  | <b>–</b>                      | <b>3</b>    |
| 31 December 2011                                 | 6                           | 9                            | 1                                         | 38                            | 54          |

|             |                    |            |
|-------------|--------------------|------------|
| 31 December | <b>2012<br/>£m</b> | 2011<br>£m |
|-------------|--------------------|------------|

### ANALYSIS OF NET BOOK VALUE OF LAND AND BUILDINGS

|                          |           |    |
|--------------------------|-----------|----|
| Freehold                 | <b>64</b> | 75 |
| Leasehold                |           |    |
| Over 50 years unexpired  | <b>1</b>  | 1  |
| Under 50 years unexpired | <b>6</b>  | 8  |
|                          | <b>71</b> | 84 |

## 15. Non-current Investments

| 31 December                                                         | <b>2012<br/>£m</b> | <b>Group<br/>2011<br/>£m</b> | <b>2012<br/>£m</b> | <b>Company<br/>2011<br/>£m</b> |
|---------------------------------------------------------------------|--------------------|------------------------------|--------------------|--------------------------------|
| Interests in associated undertakings<br>(see notes a) and c) below) | –                  | 186                          | –                  | 60                             |
| Interests in joint ventures<br>(see note a) below)                  | <b>9</b>           | 62                           | –                  | –                              |
| Fixed asset investments<br>(see notes b) and c) below)              |                    |                              |                    |                                |
| listed investments                                                  | <b>1</b>           | 186                          | –                  | 13                             |
| unlisted investments                                                | <b>1</b>           | 17                           | –                  | –                              |
| Interests in subsidiary undertakings<br>(see note c) below)         | –                  | –                            | <b>371</b>         | 372                            |
|                                                                     | <b>11</b>          | 451                          | <b>371</b>         | 445                            |

**15. Non-current Investments – continued****a) Group – Interests in associated undertakings and joint ventures**

|                                                        | Associated undertakings<br>£m | Joint ventures<br>£m |
|--------------------------------------------------------|-------------------------------|----------------------|
| At 1 January 2012                                      | 186                           | 62                   |
| Currency translation differences                       | (1)                           | (1)                  |
| Additions                                              | –                             | 17*                  |
| Capital return                                         | –                             | (2)                  |
| Dividends receivable                                   | (9)                           | (5)                  |
| Share of profit after tax and minorities               | 14**                          | 12***                |
| Impairments                                            | –                             | (10)                 |
| Disposals                                              | (77)                          | (28)                 |
| Transfer to non-current assets held for sale (note 34) | (113)                         | (36)                 |
| <b>AT 31 DECEMBER 2012</b>                             | <b>–</b>                      | <b>9</b>             |

\*Includes £16 million transfer from land for development (note 14)

\*\*All in respect of discontinued operations (note 34) including £4 million net impairment write-back

\*\*\*Includes £11 million in respect of discontinued operations (note 34)

| 31 December                                         | 2012<br>£m | Associated undertakings<br>2011<br>£m | 2012<br>£m | Joint ventures<br>2011<br>£m |
|-----------------------------------------------------|------------|---------------------------------------|------------|------------------------------|
| Share of net assets on acquisition                  | –          | 134                                   | 7          | 79                           |
| Share of post-acquisition retained profits/(losses) | –          | 49                                    | 2          | (17)                         |
| Share of net assets                                 | –          | 183                                   | 9          | 62                           |
| Goodwill                                            | –          | 3                                     | –          | –                            |
|                                                     | –          | 186                                   | 9          | 62                           |

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

| Year ended 31 December                                                                              | 2012<br>£m | 2011<br>£m  |
|-----------------------------------------------------------------------------------------------------|------------|-------------|
| <b>SUMMARISED INCOME STATEMENT INFORMATION</b>                                                      |            |             |
| Revenue                                                                                             | 187        | 272         |
| Profit/(loss) before tax (including £4 million net impairment write-back (2011 £30 million charge)) | 20         | (10)        |
| Taxation                                                                                            | (6)        | (8)         |
| <b>PROFIT/(LOSS) AFTER TAX</b>                                                                      | <b>14</b>  | <b>(18)</b> |

| 31 December                                                                      | 2012<br>£m | 2011<br>£m |
|----------------------------------------------------------------------------------|------------|------------|
| <b>SUMMARISED BALANCE SHEET INFORMATION</b>                                      |            |            |
| Non-current assets (net of £37 million impairment provisions (2011 £47 million)) | 29         | 501        |
| Current assets                                                                   | 333        | 397        |
|                                                                                  | 362        | 898        |
| Liabilities due within one year                                                  | (132)      | (174)      |
| Liabilities due after more than one year                                         | (120)      | (541)      |
| <b>NET ASSETS</b>                                                                | <b>110</b> | <b>183</b> |

The associated undertakings are held by the Parent Group and by CIC Australia Ltd, and their results for 2012 and 2011 are included within discontinued operations (note 34). As at 31 December 2012 the net assets of those associated undertakings (plus £3 million goodwill) are included within assets held for sale (note 34).

The Group's share of associated undertakings' borrowings is £14 million (2011 £16 million) of which £Nil (2011 £1 million) is repayable within one year. None of these borrowings has been guaranteed by GPG or by any of its subsidiary undertakings.

## 15. Non-current Investments – continued

Included within current asset investments (note 20) and other fixed asset investments in assets held for sale (note 34), are three shareholdings which at year end represented 20% or more of the voting rights of the respective companies, which were not treated as associated undertakings. The directors consider that the Group is not able to exercise significant influence over these companies due to the dominant influence of other members and/or the composition of the respective Boards. The details are as follows:

|                        | Capital and<br>reserves<br>A\$m | Latest<br>profit<br>A\$m | Date of last<br>audited<br>accounts | Country of<br>incorporation | Nature of<br>business    | GPG<br>shareholding | Class    |
|------------------------|---------------------------------|--------------------------|-------------------------------------|-----------------------------|--------------------------|---------------------|----------|
| Ridley Corporation Ltd | 290                             | 19                       | 30/06/12                            | Australia                   | Agricultural<br>products | 22.1%               | Ordinary |
| Tooth & Co Ltd         | –                               | 17                       | 30/06/11                            | Australia                   | Investment               | 25.0%               | Ordinary |
| Tandou Ltd             | 76                              | 5                        | 30/06/12                            | Australia                   | Water<br>investment      | 28.4%               | Ordinary |

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

| Year ended 31 December                                                                    | 2012<br>£m | 2011<br>£m |
|-------------------------------------------------------------------------------------------|------------|------------|
| <b>SUMMARISED INCOME STATEMENT INFORMATION</b>                                            |            |            |
| Revenue                                                                                   | 99         | 123        |
| Profit before tax                                                                         | 6          | 13         |
| Taxation                                                                                  | (4)        | (1)        |
| <b>PROFIT AFTER TAX (OF WHICH DISCONTINUED OPERATIONS £1 MILLION (2011: £11 MILLION))</b> | <b>2</b>   | <b>12</b>  |

| 31 December                                                                                      | 2012<br>£m | 2011<br>£m |
|--------------------------------------------------------------------------------------------------|------------|------------|
| <b>SUMMARISED BALANCE SHEET INFORMATION</b>                                                      |            |            |
| Non-current assets                                                                               | 41         | 74         |
| Current assets                                                                                   | 21         | 35         |
|                                                                                                  | <b>62</b>  | <b>109</b> |
| Liabilities due within one year                                                                  | (9)        | (44)       |
| Liabilities due after more than one year                                                         | (8)        | (3)        |
| <b>NET ASSETS (OF WHICH £36 MILLION (2011: £NIL) INCLUDED IN ASSETS HELD FOR SALE (NOTE 34))</b> | <b>45</b>  | <b>62</b>  |

The Group's share of joint ventures' borrowings is £2 million (2011: £10 million).

See note 31 for details of a guarantee provided by the Group in respect of the banking facilities of Australian Country Spinners Ltd.

None of the Group's joint ventures at 31 December 2012 was listed (2011: none).

No joint ventures are held directly by GPG.

### b) Group – Fixed asset investments

|                                                                | Listed<br>investments<br>£m | Unlisted<br>investments<br>£m | Total<br>£m |
|----------------------------------------------------------------|-----------------------------|-------------------------------|-------------|
| At 1 January 2012                                              | 186                         | 17                            | 203         |
| Currency translation differences                               | –                           | (1)                           | (1)         |
| Repayment of capital by investees                              | (3)                         | –                             | (3)         |
| Impairment charge                                              | (3)                         | –                             | (3)         |
| Mark-to-market valuation adjustments                           | (10)                        | (2)                           | (12)        |
| Reclassification to non-current assets held for sale (note 34) | (75)                        | (1)                           | (76)        |
| Disposals                                                      | (94)                        | (12)                          | (106)       |
| <b>AT 31 DECEMBER 2012</b>                                     | <b>1</b>                    | <b>1</b>                      | <b>2</b>    |

**15. Non-current Investments – continued****c) Company**

|                            | Investments<br>in subsidiary<br>undertakings<br>£m | Investments<br>in associated<br>undertakings<br>£m | Listed<br>investments<br>£m | Total<br>£m |
|----------------------------|----------------------------------------------------|----------------------------------------------------|-----------------------------|-------------|
| At 1 January 2012          | 372                                                | 60                                                 | 13                          | 445         |
| Disposals                  | (1)                                                | (60)                                               | (13)                        | (74)        |
| <b>AT 31 DECEMBER 2012</b> | <b>371</b>                                         | <b>–</b>                                           | <b>–</b>                    | <b>371</b>  |

**16. Principal Subsidiary Undertakings**

The Group's principal subsidiary undertakings at 31 December 2012, all of which are included in the Group's consolidated financial statements, are set out below

| Company name                             | Country of<br>incorporation/<br>registration | Class and percentage<br>of shares held         | Nature of business   |
|------------------------------------------|----------------------------------------------|------------------------------------------------|----------------------|
| GPG (UK) Holdings plc                    | England                                      | 100% ordinary shares                           | Investment company   |
| GPG Finance plc*                         | England                                      | 100% ordinary shares                           | Finance              |
| GPG Securities Trading Ltd*,***          | England                                      | 100% ordinary shares                           | Investment company   |
| Brown Shipley Holdings Ltd*,***          | England                                      | 100% ordinary shares                           | Investment company   |
| Coats plc****                            | England                                      | 100% ordinary shares                           | Thread manufacture   |
| Guinness Peat Group (Australia) Pty Ltd* | Australia                                    | 100% ordinary shares<br>100% preference shares | Investment company   |
| CIC Australia Ltd*,**                    | Australia                                    | 72 8% ordinary shares                          | Property development |

\*These subsidiaries are owned indirectly by the Company

\*\*Re-classified to assets held for sale (note 34)

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

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

**17. Deferred Tax Assets**

|                     | 2012<br>£m | Group<br>2011<br>£m |
|---------------------|------------|---------------------|
| 31 December         |            |                     |
| Deferred tax assets | 9          | 12                  |

The Group's deferred tax assets are included within the analysis in note 26

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

|                                                                | 2012<br>£m | 2011<br>£m |
|----------------------------------------------------------------|------------|------------|
| At 1 January                                                   | 12         | 13         |
| Currency translation differences                               | –          | (1)        |
| Acquisition of subsidiaries                                    | –          | 4          |
| Credited/(charged) to the income statement                     | 1          | (3)        |
| Charged to reserves                                            | –          | (1)        |
| Reclassification to non-current assets held for sale (note 34) | (4)        | –          |
| <b>AT 31 DECEMBER</b>                                          | <b>9</b>   | <b>12</b>  |

## 18. Inventories

|                                     |            | Group      |
|-------------------------------------|------------|------------|
| 31 December                         | 2012<br>£m | 2011<br>£m |
| Raw materials and consumables       | 56         | 64         |
| Work in progress                    | 39         | 41         |
| Finished goods and goods for resale | 96         | 102        |
|                                     | 191        | 207        |
| Development work in progress        | –          | 9          |
|                                     | 191        | 216        |

## 19. Trade and Other Receivables

|                                                                                            |            | Group      |
|--------------------------------------------------------------------------------------------|------------|------------|
| 31 December                                                                                | 2012<br>£m | 2011<br>£m |
| Trade receivables                                                                          | 151        | 163        |
| Amounts owed by associated undertakings and joint ventures                                 | 1          | 11         |
| Taxation recoverable (of which £1 million due after more than one year (2011: £1 million)) | 3          | 4          |
| Other receivables                                                                          | 36         | 36         |
| Prepayments and accrued income                                                             | 12         | 13         |
|                                                                                            | 203        | 227        |
| Amounts shown within non-current assets                                                    | (13)       | (10)       |
| Amounts shown within current assets                                                        | 190        | 217        |

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

Total trade receivables (net of allowances) at 31 December 2012 amounted to £153 million (2011: £204 million), including £2 million (2011: £41 million) classified as held for sale (note 34)

The average credit period taken on sales of goods is 53 days (2011: 65 days). Interest charged in respect of overdue trade receivables is immaterial.

Credit risk is minimised as the exposure is spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts on trade receivables of £11 million (2011: £11 million). This allowance has been determined by reference to past default experience, and the movements in the allowance are analysed as follows:

|                                     |            | Group      |
|-------------------------------------|------------|------------|
|                                     | 2012<br>£m | 2011<br>£m |
| At 1 January                        | 11         | 13         |
| Currency translation differences    | (1)        | (1)        |
| Charged to the income statement     | 2          | 1          |
| Amounts written off during the year | (1)        | (2)        |
| <b>AT 31 DECEMBER</b>               | <b>11</b>  | <b>11</b>  |

Further details regarding credit risk are provided in note 37 on page 92

## 20. Current Asset Investments

|                      |            | Group      |
|----------------------|------------|------------|
| 31 December          | 2012<br>£m | 2011<br>£m |
| Listed investments   | 10         | 9          |
| Unlisted investments | –          | 1          |
|                      | 10         | 10         |

The listed investments are all quoted on recognised stock exchanges

**21. Derivative Financial Instruments – Assets**

Derivative financial instruments within Group current assets comprise

|                                         | <b>Group</b> |           |
|-----------------------------------------|--------------|-----------|
| 31 December                             | <b>2012</b>  | 2011      |
|                                         | <b>£m</b>    | <b>£m</b> |
| Fair value through the income statement |              |           |
| Forward foreign currency contracts      | <b>2</b>     | <b>2</b>  |

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

**22. Trade and Other Payables**

|                                                            | <b>Group</b> |           | <b>Company</b> |           |
|------------------------------------------------------------|--------------|-----------|----------------|-----------|
| 31 December                                                | <b>2012</b>  | 2011      | <b>2012</b>    | 2011      |
|                                                            | <b>£m</b>    | <b>£m</b> | <b>£m</b>      | <b>£m</b> |
| <b>AMOUNTS FALLING DUE WITHIN ONE YEAR</b>                 |              |           |                |           |
| Trade payables                                             | <b>137</b>   | 154       | –              | –         |
| Amounts owed to associated undertakings and joint ventures | <b>5</b>     | 10        | –              | –         |
| Other tax and social security payable                      | <b>7</b>     | 7         | –              | –         |
| Other payables                                             | <b>18</b>    | 25        | –              | –         |
| Accruals and deferred income                               | <b>38</b>    | 35        | –              | –         |
| Employee entitlements (excluding pensions)                 | <b>15</b>    | 19        | –              | –         |
|                                                            | <b>220</b>   | 250       | –              | –         |
| <b>AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>        |              |           |                |           |
| Other payables                                             | <b>11</b>    | 10        | –              | –         |
| Accruals and deferred income                               | –            | 2         | –              | 2         |
| Employee entitlements (excluding pensions)                 | <b>4</b>     | 1         | –              | –         |
|                                                            | <b>15</b>    | 13        | –              | 2         |

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

Total trade payables at 31 December 2012 amounted to £137 million (2011 £179 million), including £Nil (2011 £25 million) classified as liabilities directly associated with assets held for sale (note 34)

Trade payables comprise amounts outstanding in respect of trade purchases and ongoing costs. The average credit period taken for trade purchases is 69 days (2011 72 days)

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

|                                           | <b>Company</b> |           |
|-------------------------------------------|----------------|-----------|
| 31 December                               | <b>2012</b>    | 2011      |
|                                           | <b>£m</b>      | <b>£m</b> |
| <b>LOANS FROM SUBSIDIARY UNDERTAKINGS</b> |                |           |
| Amounts falling due within one year       | <b>112</b>     | 230       |

## 23. Derivative Financial Instruments – Liabilities

Derivative financial instruments within non-current and current liabilities comprise

|                                                                 |             | <b>Group</b> |
|-----------------------------------------------------------------|-------------|--------------|
| 31 December                                                     | <b>2012</b> | <b>2011</b>  |
|                                                                 | <b>£m</b>   | <b>£m</b>    |
| Fair value through the income statement                         |             |              |
| Forward foreign currency contracts                              | <b>1</b>    | <b>3</b>     |
| Fair value hedges through the statement of comprehensive income |             |              |
| Other derivative financial instruments                          | <b>6</b>    | <b>6</b>     |
|                                                                 | <b>7</b>    | <b>9</b>     |
| Amounts shown within non-current liabilities                    | <b>(3)</b>  | <b>(3)</b>   |
| Amounts shown within current liabilities                        | <b>4</b>    | <b>6</b>     |

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

The Company has no derivative financial liabilities (2011 £nil)

## 24. Capital Notes

|                               |             | <b>Group</b> |
|-------------------------------|-------------|--------------|
| 31 December                   | <b>2012</b> | <b>2011</b>  |
|                               | <b>£m</b>   | <b>£m</b>    |
| Election date within one year | <b>–</b>    | <b>214</b>   |

Capital Notes with an initial election date of 15 December 2013 and a principal value of NZ\$77 million were purchased on 15 March 2012 and subsequently cancelled. Capital Notes with an initial election date of 15 November 2012 and a principal value of NZ\$350 million were purchased on 15 November 2012 and subsequently cancelled.

## 25. Other Borrowings

|                                                 |             | <b>Group</b> |
|-------------------------------------------------|-------------|--------------|
| 31 December                                     | <b>2012</b> | <b>2011</b>  |
|                                                 | <b>£m</b>   | <b>£m</b>    |
| Bank overdrafts                                 | <b>11</b>   | <b>17</b>    |
| Borrowings repayable within one year            | <b>16</b>   | <b>33</b>    |
| Due within one year                             | <b>27</b>   | <b>50</b>    |
| Borrowings repayable between one and two years  | <b>24</b>   | <b>–</b>     |
| Borrowings repayable between two and five years | <b>254</b>  | <b>216</b>   |
| Due after more than one year                    | <b>278</b>  | <b>216</b>   |
|                                                 | <b>305</b>  | <b>266</b>   |
| Bank overdrafts                                 | <b>11</b>   | <b>17</b>    |
| Bank borrowings                                 | <b>294</b>  | <b>249</b>   |
|                                                 | <b>305</b>  | <b>266</b>   |

## Notes to Financial Statements continued

At 31 December 2012, the Group's borrowings shown above comprised £293 million of secured borrowings (2011 £247 million) and £12 million of unsecured borrowings (2011 £19 million). Borrowings in operations held for sale at 31 December 2012 (note 34) comprised £20 million of secured borrowings (2011 £45 million) and £Nil of unsecured borrowings (2011 £Nil). Of the borrowings at 31 December 2012 described here as secured, £290 million (2011 £202 million) are subject to guarantees issued by Coats and certain of its principal subsidiaries.

The currency and interest rate profile of the Group's borrowings is included in note 37 on page 89.

## 26. Deferred Tax Liabilities

|                                                     | 2012<br>£m | Group<br>2011<br>£m |
|-----------------------------------------------------|------------|---------------------|
| At 1 January                                        | 25         | 29                  |
| Currency translation differences                    | (1)        | -                   |
| Acquisition of subsidiaries                         | -          | 3                   |
| Reclassified to liabilities re assets held for sale | -          | (9)                 |
| Charged to the income statement                     | 5          | 11                  |
| Credited to reserves                                | (4)        | (9)                 |
| <b>AT 31 DECEMBER</b>                               | <b>25</b>  | <b>25</b>           |

| 31 December | 2012<br>Provided<br>£m | 2012<br>Unprovided<br>£m | 2011<br>Provided<br>£m | 2011*<br>Unprovided<br>£m |
|-------------|------------------------|--------------------------|------------------------|---------------------------|
|-------------|------------------------|--------------------------|------------------------|---------------------------|

The Group's net deferred tax liabilities/(assets) are analysed as follows.

|                                |           |              |           |              |
|--------------------------------|-----------|--------------|-----------|--------------|
| Accelerated tax depreciation   | 17        | (2)          | 17        | (1)          |
| Short-term timing differences  | (10)      | (10)         | (9)       | (11)         |
| Unrealised investment gains    | 3         | -            | -         | -            |
| Revenue losses carried forward | (43)      | (170)        | (47)      | (165)        |
| Capital losses carried forward | -         | (273)        | -         | (282)        |
| Unremitted overseas earnings   | 11        | -            | 10        | -            |
| Brands                         | 32        | -            | 37        | -            |
| Retirement benefit obligations | 6         | (43)         | 5         | (43)         |
|                                | <b>16</b> | <b>(498)</b> | <b>13</b> | <b>(502)</b> |

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

|                               |           |           |
|-------------------------------|-----------|-----------|
| Deferred tax assets (note 17) | (9)       | (12)      |
| Deferred tax liabilities      | 25        | 25        |
|                               | <b>16</b> | <b>13</b> |

At the year end, the Group had approximately £1.9 billion (2011 £1.9 billion) of unused tax losses available for offset against future profits. A deferred tax asset has been recognised in respect of £179 million (2011 £180 million) of such losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

At the period end, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £Nil (2011 £Nil).

\*Restated to include additional unprovided assets

## 27. Provisions

| 31 December                        | 2012<br>£m | Group<br>2011<br>£m | 2012<br>£m | Company<br>2011<br>£m |
|------------------------------------|------------|---------------------|------------|-----------------------|
| Provisions are included as follows |            |                     |            |                       |
| Current liabilities                | 46         | 63                  | –          | –                     |
| Non-current liabilities            | 19         | 21                  | 1          | 1                     |
|                                    | <u>65</u>  | <u>84</u>           | <u>1</u>   | <u>1</u>              |

|                                  | Onerous<br>leases<br>£m | Pension<br>liabilities<br>£m | Other<br>provisions<br>£m | Total<br>£m |
|----------------------------------|-------------------------|------------------------------|---------------------------|-------------|
| <b>GROUP</b>                     |                         |                              |                           |             |
| At 1 January 2012                | 11                      | 14                           | 59                        | 84          |
| Currency translation differences | (1)                     | –                            | (1)                       | (2)         |
| Unwinding of discount (note 6)   | 1                       | –                            | –                         | 1           |
| Utilised in year                 | (2)                     | –                            | (130)                     | (132)       |
| Charged to the income statement  | 1                       | 6                            | 107                       | 114         |
| <b>AT 31 DECEMBER 2012</b>       | <b>10</b>               | <b>20</b>                    | <b>35</b>                 | <b>65</b>   |

As previously reported, on 27 June 2012 the European General Court dismissed Coats' appeal against the fine imposed on the Coats plc Group of €110.3 million, and that fine, together with accrued interest of €24.7 million, was settled during the year.

Other provisions largely comprise reorganisation costs, which are expected to be utilised within one year, together with costs which are expected to be substantially utilised within the next ten years, being remediation, study costs and associated legal and consultancy costs in connection with US environmental matters (see note 31) and amounts set aside to cover certain legal and regulatory claims and other obligations arising.

The currency and interest rate profile of onerous leases is included in note 37 on page 89, and the maturity of onerous leases is included in note 37 on page 91.

| <b>COMPANY</b>                         | Onerous leases<br>£m |
|----------------------------------------|----------------------|
| At 1 January 2012 and 31 December 2012 | <u>1</u>             |

## 28. Operating Lease Commitments

| 31 December                                                    | 2012<br>£m | Group<br>2011<br>£m | 2012<br>£m | Company<br>2011<br>£m |
|----------------------------------------------------------------|------------|---------------------|------------|-----------------------|
| Outstanding commitments under non-cancellable operating leases |            |                     |            |                       |
| Payable within one year                                        | 13         | 16                  | –          | –                     |
| Payable between one and five years                             | 22         | 29                  | 2          | 2                     |
| Payable after more than five years                             | 9          | 12                  | 2          | 3                     |
|                                                                | <u>44</u>  | <u>57</u>           | <u>4</u>   | <u>5</u>              |

At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

| 31 December                           | 2012<br>£m | 2011<br>£m |
|---------------------------------------|------------|------------|
| Receivable within one year            | 1          | 2          |
| Receivable between one and five years | 4          | 5          |
| Receivable after more than five years | 3          | 3          |
|                                       | <u>8</u>   | <u>10</u>  |

Operating leases relate principally to land and buildings and vehicles.

**29. Share Capital**

| Issued and fully paid      | 31 December 2012     |           | 31 December 2011 |    |
|----------------------------|----------------------|-----------|------------------|----|
|                            | Number               | £m        | Number           | £m |
| Ordinary Shares of 5p each | <b>1,565,935,990</b> | <b>78</b> | 1,622,676,844    | 81 |

The issued Ordinary Share capital of GPG decreased during the year to 31 December 2012 as follows

| Date of event           | Stock event                 | No of shares         | £m           |
|-------------------------|-----------------------------|----------------------|--------------|
| 1 January 2012          | <b>Brought forward</b>      | <b>1,622,676,844</b> | <b>81 1</b>  |
| Various dates           | <b>Exercises of options</b> | <b>338,248</b>       | <b>0 1</b>   |
| Various dates           | <b>Share buybacks</b>       | <b>(57,079,102)</b>  | <b>(2 9)</b> |
| <b>31 DECEMBER 2012</b> | <b>Carried forward</b>      | <b>1,565,935,990</b> | <b>78 3</b>  |

During November and December 2012 a total of 57,079,102 Ordinary Shares were purchased and cancelled. A further 23,480,921 Ordinary Shares were purchased in December 2012 but remained in issue at 31 December 2012.

Options outstanding under the Group's 2002 share option scheme at 31 December 2012 were as set out below

| Share Option Scheme             | Number     | Date granted | Exercise price<br>(p per share) | Exercise period      |
|---------------------------------|------------|--------------|---------------------------------|----------------------|
| <b>2002 SHARE OPTION SCHEME</b> |            |              |                                 |                      |
| Ordinary                        | 886,159    | 08 01 03     | 20 6169                         | 08 01 06 to 08 01 13 |
| Ordinary                        | 1,368,844  | 21 03 03     | 23 2235                         | 21 03 06 to 21 03 13 |
| Ordinary                        | 1,208,412  | 16 10 03     | 33 1052                         | 16 10 06 to 16 10 13 |
| Ordinary                        | 14,903,708 | 23 04 04     | 40 0912                         | 23 04 07 to 23 04 14 |
| Ordinary                        | 1,743,728  | 27 08 04     | 39 2832                         | 27 08 07 to 27 08 14 |
| Ordinary                        | 8,369,973  | 09 03 05     | 48 2294                         | 09 03 08 to 09 03 15 |
| Ordinary                        | 6,800,570  | 04 04 05     | 44 4444                         | 04 04 08 to 04 04 15 |
| Ordinary                        | 13,066,072 | 24 10 05     | 51 0967                         | 24 10 08 to 24 10 15 |
| Ordinary                        | 317,040    | 07 11 05     | 51 0967                         | 07 11 08 to 07 11 15 |
| Ordinary                        | 39,625     | 14 12 05     | 51 0967                         | 14 12 08 to 14 12 15 |
| Ordinary                        | 9,614,248  | 15 03 06     | 56 6480                         | 15 03 09 to 15 03 16 |
| Ordinary                        | 317,034    | 05 05 06     | 56 7743                         | 05 05 09 to 05 05 16 |
| Ordinary                        | 3,242,505  | 11 10 06     | 58 9820                         | 11 10 09 to 11 10 16 |
| Ordinary                        | 12,126,967 | 09 03 07     | 56 5534                         | 09 03 10 to 09 03 17 |
| Ordinary                        | 9,282,068  | 10 04 08     | 49 9961                         | 10 04 11 to 10 04 18 |
| Ordinary                        | 4,293,015  | 30 06 09     | 25 9529                         | 30 06 12 to 30 06 19 |

Options exercised during the year comprised 338,248 under the schemes operated by the Group, and 2,059,603 options lapsed

During the year, the number and respective exercise price of each outstanding grant of options was adjusted to take account of the 2011 capital return, resulting in a reduction of 1,407,226 in the number of options outstanding

### 30. Reserves and Non-Controlling Interests

| GROUP                                  | Translation<br>reserve<br>£m | Unrealised<br>gains<br>reserve<br>£m | Capital<br>reduction<br>reserve<br>£m | Other<br>reserves<br>£m | Retained<br>earnings<br>£m | Non-<br>controlling<br>interests<br>£m |
|----------------------------------------|------------------------------|--------------------------------------|---------------------------------------|-------------------------|----------------------------|----------------------------------------|
| At 1 January 2012                      | 139                          | 64                                   | 118                                   | 109                     | 91                         | 64                                     |
| Share buybacks                         | –                            | –                                    | (25)                                  | 3                       | –                          | –                                      |
| Dividends                              | –                            | –                                    | –                                     | –                       | –                          | (5)                                    |
| Currency translation differences       | (11)                         | –                                    | –                                     | –                       | –                          | –                                      |
| Decreases in fair value                | –                            | (9)                                  | –                                     | (3)                     | –                          | –                                      |
| Transfers to income statement          | (18)                         | (41)                                 | –                                     | 3                       | –                          | –                                      |
| Actuarial losses on employee benefits  | –                            | –                                    | –                                     | –                       | (40)                       | –                                      |
| (Loss)/profit for the year             | –                            | –                                    | –                                     | –                       | (3)                        | 3                                      |
| Disposal of subsidiaries               | (21)                         | –                                    | –                                     | –                       | –                          | (39)                                   |
| Dilution of investment in subsidiaries | –                            | –                                    | –                                     | –                       | –                          | 1                                      |
| <b>AT 31 DECEMBER 2012</b>             | <b>89</b>                    | <b>14</b>                            | <b>93</b>                             | <b>112</b>              | <b>48</b>                  | <b>24</b>                              |

| COMPANY                              | Capital<br>redemption<br>reserve<br>£m | Unrealised<br>gains<br>reserve<br>£m | Capital<br>reduction<br>reserve<br>£m | Share<br>options<br>reserve<br>£m | Other<br>reserves<br>£m | Profit<br>and loss<br>account<br>£m |
|--------------------------------------|----------------------------------------|--------------------------------------|---------------------------------------|-----------------------------------|-------------------------|-------------------------------------|
| At 1 January 2012                    | 1                                      | 2                                    | 118                                   | 8                                 | 1                       | 9                                   |
| Share buybacks                       | 3                                      | –                                    | (25)                                  | –                                 | –                       | –                                   |
| Transfers to profit and loss account | –                                      | (2)                                  | –                                     | –                                 | –                       | –                                   |
| Profit for the year                  | –                                      | –                                    | –                                     | –                                 | –                       | 68                                  |
| <b>AT 31 DECEMBER 2012</b>           | <b>4</b>                               | <b>–</b>                             | <b>93</b>                             | <b>8</b>                          | <b>1</b>                | <b>77</b>                           |

### 31. Contingent Liabilities

The Parent Group banking facility of £130 million was cancelled during the year

Coats' borrowings at the year end include £290 million (2011 £202 million) secured by guarantees issued by Coats and certain of its principal subsidiaries

The Group has guaranteed the banking facilities of Australian Country Spinners Ltd, on a joint and several basis with the other shareholder. The Group's liability under that guarantee, which is limited to 50% of those facilities, amounts to A\$3 million (2011 A\$1 million)

#### Guarantees

GPG has guaranteed certain amounts that may become payable in respect of a former subsidiary in Australia. At 31 December 2012 GPG's liability under that guarantee amounted to A\$1.7 million (2011 A\$2.0 million). These obligations expire on 31 March 2014.

#### Environmental Contingent Liabilities

As noted in previous reports, the US Environmental Protection Agency ('USEPA') has notified Coats & Clark, Inc. ('CC') that it is a 'potentially responsible party' under the US Superfund law for investigation and remediation costs at the Lower Passaic River Study Area ('LPRSA') in New Jersey in respect of an alleged predecessor's former facilities which operated in that area prior to 1950. Approximately 70 companies to date have formed a cooperating parties group ('CPG') to fund and conduct a remedial investigation and feasibility study ('RI/FS') of the area. CC joined the CPG in 2011. The total costs of the RI/FS and related expenditures are currently estimated by the CPG to be approximately US\$110 million.

Under the interim allocation in place when CC joined the CPG, CC was responsible for approximately 17% of the total RI/FS and related costs. During the year, 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, and TMO's continued funding of the RI/FS is in question. If TMO continues to fund the RI/FS pursuant to its independent agreement with USEPA, CC's interim allocation of future RI/FS costs would remain approximately 17%. If TMO ceases its RI/FS funding, CC's interim allocation of future RI/FS costs would be approximately 2.2%. 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 a final allocation will include TMO as well as additional parties not currently in the CPG.

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 in 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 the year, 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 US\$0.7 million. The US\$8.0 million (2011 US\$2.5 million) US environmental charge reported by Coats is primarily connected with CC's latest estimated share of study costs and associated legal and consultancy costs and this remediation.

CC has identified a number of insurance policies that it believes will cover some of the costs previously incurred and to be incurred in respect of this matter, and it is investigating and pursuing its rights under those policies. The availability and extent of coverage under those policies has yet to be determined, and therefore CC has not assumed any insurance recovery in calculating its environmental charge.

The Group 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 the Group predict what CC's ultimate share will be. Accordingly, no provision has been made for these costs.

#### US anti-trust claim

Coats is subject to a lawsuit in the US that followed on from the original decision in 2007 by the European Commission to levy a fine of €110.3 million on Coats. While that decision focused on conduct in the European Union relating to fasteners, the consolidated class action complaint filed by US plaintiffs in the Eastern District of Pennsylvania against Coats and three other manufacturers makes allegations under US antitrust laws relating to sales of zippers and other fasteners from January 1991 until September 2007 in the US. Coats considers that the plaintiffs' case is without merit and is vigorously defending it.

### 32. Capital Commitments

As at 31 December 2012, the Group had commitments of £1 million in respect of contracts placed for future capital expenditure (2011 £1 million). Its share of the capital commitments reported by associated undertakings and joint ventures was £Nil (2011 £Nil). The Company did not have any capital commitments as at 31 December 2012 (2011 £Nil).

### 33. Notes to the Consolidated Statement of Cash Flows

#### a) Reconciliation of pre-tax (loss)/profit to net cash inflow from operating activities

| Year ended 31 December                                                                                    | 2012<br>£m  | 2011*<br>£m |
|-----------------------------------------------------------------------------------------------------------|-------------|-------------|
| (Loss)/profit before taxation from continuing operations                                                  | (66)        | 35          |
| Interest and other income – Coats                                                                         | (2)         | (5)         |
| Share of profit of joint ventures                                                                         | (1)         | (1)         |
| Finance costs (net)                                                                                       | 49          | 27          |
| <b>Operating (loss)/profit</b>                                                                            | <b>(20)</b> | <b>56</b>   |
| Adjustments for                                                                                           |             |             |
| Depreciation                                                                                              | 30          | 32          |
| Impairment of intangible assets                                                                           | 1           | –           |
| Amortisation of intangible assets                                                                         | 4           | 5           |
| Loss/(profit) on disposal of property, plant and equipment                                                | 2           | (1)         |
| Increase in trade and other receivables                                                                   | (1)         | (3)         |
| Decrease/(increase) in inventories                                                                        | 2           | (21)        |
| Decrease in provisions                                                                                    | (28)        | (23)        |
| (Decrease)/increase in trade and other payables                                                           | (1)         | 5           |
| Discontinued operations (including proceeds of sales of Parent Group fixed and current asset investments) | 150         | 167         |
| Currency and other adjustments                                                                            | (5)         | (14)        |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>                                                          | <b>134</b>  | <b>203</b>  |

#### b) Taxation paid

| Year ended 31 December  | 2012<br>£m  | 2011*<br>£m |
|-------------------------|-------------|-------------|
| Overseas tax paid       | (22)        | (25)        |
| Discontinued operations | (2)         | (3)         |
|                         | <b>(24)</b> | <b>(28)</b> |

#### c) Investment income

| Year ended 31 December            | 2012<br>£m | 2011*<br>£m |
|-----------------------------------|------------|-------------|
| Interest and other income – Coats | 2          | 5           |
| Discontinued operations           | 4          | 8           |
|                                   | <b>6</b>   | <b>13</b>   |

\*Restated to reflect the results of Gosford Quarry Holdings Ltd, Touch Holdings Ltd, CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34)

**33. Notes to the Consolidated Statement of Cash Flows – continued**

| <b>d) Capital expenditure and financial investment</b>      | <b>2012<br/>£m</b> | <b>2011*<br/>£m</b> |
|-------------------------------------------------------------|--------------------|---------------------|
| Payments to acquire property, plant and equipment           | (21)               | (28)                |
| Receipts from the disposal of property, plant and equipment | 1                  | 2                   |
| Repayment of capital by investees (operating subsidiaries)  | 2                  | –                   |
| Intangible assets acquired                                  | (4)                | (4)                 |
| Discontinued operations                                     | (5)                | (8)                 |
|                                                             | <b>(27)</b>        | <b>(38)</b>         |

| <b>e) Acquisitions and disposals</b>                                                                                                                                                                                                                                                                                      | <b>2012<br/>£m</b> | <b>2011*<br/>£m</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------|
| Purchase of joint ventures (operating subsidiaries)                                                                                                                                                                                                                                                                       | –                  | (1)                 |
| Discontinued operations (including, <i>inter alia</i> , proceeds of sales of Parent Group operating subsidiaries £81 million, associated undertakings £77 million, joint ventures £31 million and other assets formerly classified as held for sale £12 million, less £5 million held by the operating subsidiaries sold) | 193                | –                   |
|                                                                                                                                                                                                                                                                                                                           | <b>193</b>         | <b>(1)</b>          |

| <b>f) Net buy-back/capital return of Ordinary Shares</b>    | <b>2012<br/>£m</b> | <b>2011*<br/>£m</b> |
|-------------------------------------------------------------|--------------------|---------------------|
| Issue of Ordinary Shares by the Company                     | –                  | 2                   |
| Capital return to holders of Ordinary Shares of the Company | –                  | (80)                |
| Share buy-backs                                             | (24)               | –                   |
|                                                             | <b>(24)</b>        | <b>(78)</b>         |

| <b>g) Equity dividends paid to the Company's shareholders</b> | <b>2012<br/>£m</b> | <b>2011*<br/>£m</b> |
|---------------------------------------------------------------|--------------------|---------------------|
| Dividends payable                                             | –                  | (18)                |
| Less shares issued in lieu of cash dividend                   | –                  | 6                   |
|                                                               | <b>–</b>           | <b>(12)</b>         |

| <b>h) Net decrease in borrowings</b> | <b>2012<br/>£m</b> | <b>2011*<br/>£m</b> |
|--------------------------------------|--------------------|---------------------|
| New loans taken out                  | 224                | 274                 |
| Loans repaid                         | (347)              | (294)               |
| Discontinued operations              | (19)               | (25)                |
|                                      | <b>(142)</b>       | <b>(45)</b>         |

\*Restated to reflect the results of Gosford Quarry Holdings Ltd Touch Holdings Ltd CIC Australia Ltd and Parent Group investment operations as discontinued operations (note 34)

### 34. Discontinued operations

In November 2012, the Board signed heads of agreement for the sale of each of Gosford Quarry Holdings Ltd ("Gosford"), GPG's Australian quarry operator subsidiary, and Touch Holdings Ltd ("Touch"), its Australian electronics subsidiary. Those investments were reclassified as assets held for sale at 30 November 2012 and their results reclassified as discontinued operations for each of 2011 and 2012. The sale of each of those subsidiaries was completed in December 2012. It is the Board's expectation that CIC Australia Ltd ("CIC"), its Australian property development subsidiary, and the remaining investments within the Parent Group (other than Coats), will be sold within 12 months of the balance sheet date, and consequently CIC and those remaining investments, together with related assets and liabilities within the Parent Group, have been reclassified as assets (and related liabilities) held for sale at 31 December 2012, and their results reclassified as discontinued operations for each of 2011 and 2012. No opening statement of financial position has been presented for the prior year in these financial statements as it is unchanged from that previously reported.

Gosford, Touch and CIC together comprise the "unallocated" business segment previously reported.

The net assets of those businesses at reclassification were as follows:

|                                                                         | Parent Group<br>£m | Unallocated<br>£m | Total<br>£m |
|-------------------------------------------------------------------------|--------------------|-------------------|-------------|
| Intangible assets                                                       | –                  | 1                 | 1           |
| Property, plant and equipment                                           | 2                  | 23                | 25          |
| Associated undertakings                                                 | 113                | –                 | 113         |
| Joint ventures                                                          | –                  | 36                | 36          |
| Other fixed asset investments                                           | 76                 | –                 | 76          |
| Inventories                                                             | –                  | 10                | 10          |
| Deferred tax assets                                                     | –                  | 4                 | 4           |
| Trade and other receivables                                             | –                  | 20                | 20          |
| Cash and cash equivalents                                               | –                  | 8                 | 8           |
| Trade and other payables                                                | –                  | (34)              | (34)        |
| Borrowings                                                              | –                  | (20)              | (20)        |
| Net assets at reclassification                                          | 191                | 48                | 239         |
| Assets classified as held for sale                                      | 191                | 102               | 293         |
| Liabilities directly associated with assets classified as held for sale | –                  | (54)              | (54)        |
|                                                                         | 191                | 48                | 239         |

The sale of Turners & Growers, which was classified as an asset held for sale at 31 December 2011, was completed in March 2012.

## Notes to Financial Statements continued

### 34. Discontinued operations – continued

The combined results of discontinued operations were as follows

|                                               |            |                      |                 | 2012<br>£m | 2011<br>£m  |
|-----------------------------------------------|------------|----------------------|-----------------|------------|-------------|
|                                               | Coats      | Turners &<br>Growers | Parent<br>Group | Total      | Total       |
| Revenue                                       | –          | 75                   | –               | 108        | 402         |
| Cost of sales                                 | –          | (56)                 | –               | (69)       | (298)       |
| Expenses                                      | (2)        | (17)                 | –               | (42)       | (110)       |
|                                               | (2)        | 2                    | –               | (3)        | (6)         |
| Other income                                  | –          | 1                    | 83              | 93         | 26          |
| Finance costs                                 | –          | (1)                  | –               | (3)        | (6)         |
| Profit/(loss) before tax                      | (2)        | 2                    | 83              | 87         | 14          |
| Attributable tax                              | –          | –                    | (5)             | (4)        | (13)        |
| <b>Profit/(loss) after tax</b>                | <b>(2)</b> | <b>2</b>             | <b>78</b>       | <b>83</b>  | <b>1</b>    |
| Loss arising on measurement to fair value     | –          | –                    | –               | (17)       | (11)        |
| Gain on disposal of businesses                | –          | 23                   | –               | 29         | –           |
| <b>Gain/(loss) on discontinued operations</b> | <b>(2)</b> | <b>25</b>            | <b>78</b>       | <b>95</b>  | <b>(10)</b> |

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

|                                                                                       | 2012<br>£m  | 2011<br>£m  |
|---------------------------------------------------------------------------------------|-------------|-------------|
| Property, plant and equipment (2012 including £16 million secured against borrowings) | 20          | 102         |
| Associated undertakings                                                               | 113         | 8           |
| Joint ventures                                                                        | 36          | –           |
| Other fixed asset investments                                                         | 76          | –           |
| Deferred tax assets                                                                   | 4           | 1           |
| Biological assets                                                                     | –           | 16          |
| Inventories                                                                           | 7           | 34          |
| Due from associated undertakings and joint ventures                                   | 7           | 2           |
| Trade receivables                                                                     | 2           | 41          |
| Other financial asset receivables                                                     | 4           | 1           |
| Other receivables                                                                     | 1           | 3           |
| Cash and cash equivalents                                                             | 3           | 7           |
| <b>Assets held for sale</b>                                                           | <b>273</b>  | <b>215</b>  |
| Trade payables                                                                        | –           | (25)        |
| Due to associated undertakings                                                        | (13)        | (4)         |
| Other financial liability payables                                                    | (4)         | (12)        |
| Borrowings                                                                            | (20)        | (45)        |
| Deferred tax liabilities                                                              | –           | (8)         |
| <b>Liabilities directly associated with assets held for sale</b>                      | <b>(37)</b> | <b>(94)</b> |

## 35. Related Party Transactions

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided on page 32 in the audited part of the Directors' Remuneration report.

| Year ended 31 December       | 2012<br>£m | 2011<br>£m |
|------------------------------|------------|------------|
| Short-term employee benefits | 1          | 2          |
| Termination benefits         | –          | 1          |
|                              | <u>1</u>   | <u>3</u>   |

### Trading transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group.

|                | Sales of goods |            | Purchases of goods |            | Other income |            |
|----------------|----------------|------------|--------------------|------------|--------------|------------|
|                | 2012<br>£m     | 2011<br>£m | 2012<br>£m         | 2011<br>£m | 2012<br>£m   | 2011<br>£m |
| Joint ventures | 5              | 5*         | 24                 | 27         | 8            | 5          |

Transactions with joint ventures are conducted on an arm's length basis.

There were no transactions with associated undertakings (2011: Nil) \*.

Amounts owing by/(to) associated undertakings and joint ventures at the year end are disclosed in notes 19, 22 and 34.

\*Includes £2 million previously disclosed incorrectly as associated undertakings.

## 36. Post Balance Sheet Events

On 6 February 2013 the Group completed the sale of its investment in Capral Ltd, an Australian former associated undertaking classified as held for sale at 31 December 2012.

On 19 March 2013 the Company announced completion of the on-market buyback programme, having bought back an aggregate of 217,580,785 ordinary shares for an aggregate value of £69,976,714.

## 37. Derivatives and Other Financial Instruments

GPG is a strategic investment holding company and it, together with certain of its subsidiaries, is principally involved in managing a portfolio of cash and investments. The profile of the Group's financial assets, and in particular the relative balance between cash and investments, varies during the year depending on the timing of purchases and, more commonly, sales of investments. The currency profile of the Group's financial assets is similarly affected by the timing of investment transactions, and tends to vary during the year.

However, given the Group's stated aim of value realisation it is to be expected that over time investments will be realised in cash and the bulk of that cash will be migrated to New Zealand dollars prior to its return to shareholders.

The Group's main financial instruments comprise:

### FINANCIAL ASSETS

- cash and cash equivalents,
- trade and other receivables that arise directly from the Group's operations,
- investments in equity shares with both UK and international exposure. Historically, these investments have been held as either current or non-current asset investments, however, the Parent Group non-current asset investments were all reclassified as assets held for sale at 31 December 2012, and
- derivatives, including forward foreign currency contracts, cross-currency interest rate swaps, interest rate swaps, contracts for differences, equity swaps and equity options.

### FINANCIAL LIABILITIES

- trade, other payables and certain provisions that arise directly from the Group's operations,
- Capital Notes,
- bank borrowings and commercial bills, and
- derivatives, including forward foreign currency contracts, cross-currency interest rate swaps, interest rate swaps, contracts for differences, equity swaps and equity options.

**37. Derivatives and Other Financial Instruments – continued****FINANCIAL ASSETS**

The Group's financial assets are summarised below

| 31 December                                                                                       | 2012<br>£m | 2011*<br>£m |
|---------------------------------------------------------------------------------------------------|------------|-------------|
| <b>Financial assets carried at amortised cost (loans and receivables)</b>                         |            |             |
| Cash and cash equivalents                                                                         | 322        | 276         |
| Cash and cash equivalents (operations held for sale – note 34)                                    | 3          | 7           |
| Trade receivables (note 19)                                                                       | 151        | 163         |
| Trade receivables (operations held for sale – note 34)                                            | 2          | 41          |
| Due from associated undertakings and joint ventures (note 19)                                     | 1          | 11          |
| Due from associated undertakings and joint ventures (operations held for sale – note 34)          | 7          | 2           |
| Other receivables (note 19), net of non-financial assets £14 million (2011 £11 million)           | 22         | 25          |
| Other receivables (operations held for sale – note 34)                                            | 4          | 1           |
|                                                                                                   | <b>512</b> | <b>526</b>  |
| <b>Financial assets carried at fair value through the income statement</b>                        |            |             |
| Current asset investments (note 20)                                                               | 10         | 10          |
| Derivative financial instruments (note 21)                                                        | 2          | 2           |
|                                                                                                   | <b>12</b>  | <b>12</b>   |
| <b>Other financial assets carried at fair value through the statement of comprehensive income</b> |            |             |
| Non-current asset investments (available-for-sale – note 15b))                                    | 2          | 203         |
| Non-current asset investments (operations held for sale – note 34)                                | 76         | –           |
|                                                                                                   | <b>78</b>  | <b>203</b>  |
| <b>Total financial assets</b>                                                                     | <b>602</b> | <b>741</b>  |

**FINANCIAL LIABILITIES**

The Group's financial liabilities are summarised below

| 31 December                                                                                                                            | 2012<br>£m | 2011*<br>£m |
|----------------------------------------------------------------------------------------------------------------------------------------|------------|-------------|
| <b>Financial liabilities carried at amortised cost</b>                                                                                 |            |             |
| Trade payables (note 22)                                                                                                               | 137        | 154         |
| Trade payables (operations held for sale – note 34)                                                                                    | –          | 25          |
| Due to associated undertakings and joint ventures (note 22)                                                                            | 5          | 10          |
| Due to associated undertakings (operations held for sale – note 34)                                                                    | 13         | 4           |
| Other financial liabilities                                                                                                            | 77         | 82          |
| Other financial liabilities (operations held for sale – note 34)                                                                       | 4          | 12          |
| Provisions                                                                                                                             | 10         | 11          |
| Capital Notes (note 24)                                                                                                                | –          | 214         |
| Other borrowings (note 25)                                                                                                             | 305        | 266         |
| Other borrowings (operations held for sale – note 34)                                                                                  | 20         | 45          |
|                                                                                                                                        | <b>571</b> | <b>823</b>  |
| <b>Financial liabilities carried at fair value through the income statement</b>                                                        |            |             |
| Derivative financial instruments (note 23)                                                                                             | 1          | 3           |
| <b>Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income</b> |            |             |
| Derivative financial instruments (note 23)                                                                                             | 6          | 6           |
| <b>Total financial liabilities</b>                                                                                                     | <b>578</b> | <b>832</b>  |

Other financial liabilities include other payables, other than taxation and other statutory liabilities

\*Restated to include Turners &amp; Growers Ltd

## 37. Derivatives and Other Financial Instruments – continued

### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of the Group's financial assets and liabilities is summarised below

| 31 December                                         | 2012             |                  | 2011*            |                  |
|-----------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                     | Book value<br>£m | Fair value<br>£m | Book value<br>£m | Fair value<br>£m |
| <b>Primary financial instruments</b>                |                  |                  |                  |                  |
| Cash and cash equivalents                           | 325              | 325              | 283              | 283              |
| Trade receivables                                   | 153              | 153              | 204              | 204              |
| Due from associated undertakings and joint ventures | 8                | 8                | 13               | 13               |
| Other receivables                                   | 26               | 26               | 26               | 26               |
| Investments                                         |                  |                  |                  |                  |
| Current                                             | 10               | 10               | 10               | 10               |
| Non-current                                         | 78               | 78               | 203              | 203              |
| Trade payables                                      | (137)            | (137)            | (179)            | (179)            |
| Due to associated undertakings and joint ventures   | (18)             | (18)             | (14)             | (14)             |
| Other financial liabilities and provisions          | (91)             | (91)             | (105)            | (105)            |
| Capital Notes                                       | –                | –                | (214)            | (214)            |
| Other borrowings                                    | (325)            | (325)            | (311)            | (311)            |
| <b>Derivative financial instruments</b>             |                  |                  |                  |                  |
| Forward foreign currency contracts                  | –                | –                | (1)              | (1)              |
| Other net derivative financial instruments          | (5)              | (5)              | (6)              | (6)              |
| <b>Net financial assets/(liabilities)</b>           | <b>24</b>        | <b>24</b>        | <b>(91)</b>      | <b>(91)</b>      |

Investments were historically held for strategic growth or trading purposes. Market values have been used as proxies for the fair value of all listed investments and the Capital Notes. Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than twelve months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. The fair values of the equity options, equity swaps and the forward foreign currency contracts have been determined by third party institutions, based on market rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Effective-hedge gains and losses on forward foreign currency contracts used for hedging future transactions are not recognised in the income statement until the exposure to which they relate is itself recognised. Such gains and losses are incorporated in the value of the transaction being hedged.

### FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not observable market data (unobservable inputs).

\*Restated to include Turners & Growers Ltd

**37. Derivatives and Other Financial Instruments – continued****FINANCIAL ASSETS MEASURED AT FAIR VALUE**

| 31 December                                                                           | Total<br>£m | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m |
|---------------------------------------------------------------------------------------|-------------|---------------|---------------|---------------|
| <b>2012</b>                                                                           |             |               |               |               |
| Financial assets measured at fair value through the income statement                  |             |               |               |               |
| Trading securities                                                                    | <b>10</b>   | <b>10</b>     | –             | –             |
| Trading derivatives                                                                   | <b>2</b>    | –             | <b>2</b>      | –             |
| Financial assets measured at fair value through the statement of comprehensive income |             |               |               |               |
| Equity investments                                                                    | <b>78</b>   | <b>77</b>     | <b>1</b>      | –             |
| <b>Total</b>                                                                          | <b>90</b>   | <b>87</b>     | <b>3</b>      | –             |
| <b>2011</b>                                                                           |             |               |               |               |
| Financial assets measured at fair value through the income statement                  |             |               |               |               |
| Trading securities                                                                    | 10          | 9             | 1             | –             |
| Trading derivatives                                                                   | 2           | –             | 2             | –             |
| Financial assets measured at fair value through the statement of comprehensive income |             |               |               |               |
| Equity investments                                                                    | 203         | 187           | 16            | –             |
| <b>Total</b>                                                                          | <b>215</b>  | <b>196</b>    | <b>19</b>     | –             |

### 37. Derivatives and Other Financial Instruments – continued

#### FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

| 31 December                                                                                | Total<br>£m | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m |
|--------------------------------------------------------------------------------------------|-------------|---------------|---------------|---------------|
| <b>2012</b>                                                                                |             |               |               |               |
| Financial liabilities measured at fair value through the income statement                  |             |               |               |               |
| Trading derivatives                                                                        | (1)         | –             | (1)           | –             |
| Financial liabilities measured at fair value through the statement of comprehensive income |             |               |               |               |
| Derivatives designated as effective hedging instruments                                    | (6)         | –             | (6)           | –             |
| <b>Total</b>                                                                               | <b>(7)</b>  | <b>–</b>      | <b>(7)</b>    | <b>–</b>      |
| <b>2011</b>                                                                                |             |               |               |               |
| Financial liabilities measured at fair value through the income statement                  |             |               |               |               |
| Trading derivatives                                                                        | (3)         | –             | (3)           | –             |
| Financial liabilities measured at fair value through the statement of comprehensive income |             |               |               |               |
| Derivatives designated as effective hedging instruments                                    | (6)         | –             | (6)           | –             |
| <b>Total</b>                                                                               | <b>(9)</b>  | <b>–</b>      | <b>(9)</b>    | <b>–</b>      |

The main risks arising from the Group's financial instruments are as follows

- currency risk,
- interest rate risk,
- capital risk,
- market price risk,
- liquidity risk, and
- credit risk

The Group's policies for managing those risks are described on pages 86 to 93 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate

## 37. Derivatives and Other Financial Instruments – continued

### CURRENCY RISK

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The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of both its financial assets (principally cash and investments) and financial liabilities are denominated in currencies other than Sterling, which is the Group's presentation currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's Sterling statement of financial position will be affected by short term movements in exchange rates, particularly the value of the Australian, New Zealand and United States dollars and the Euro. The Board takes the view that the major currencies in which the Group is invested move within a relatively stable range and that currency fluctuations should even out over the long term. However, the Board recognises the importance of managing currency risk differently in light of the strategy to return value to shareholders. Excluding Coats, which the Board considers to be a long term hold, while significant progress has been made to migrate the surplus assets within the Parent Group balance sheet to New Zealand dollars, there remains a surplus of assets denominated in Australian dollars. The policy continues to be to migrate surplus cash generated from disposals of Australian dollar assets to New Zealand dollars to balance the exposure.

At certain times, the Board will make limited use of forward foreign currency contracts and swaps to maintain the Group's relative exposure to the Australian, United States and New Zealand dollars. These contracts tend to have a maturity of less than three months.

Coats uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted in currencies other than its own functional currency. Coats only enters into such foreign currency contracts when there is a firm commitment to the underlying transaction. The contracts used to hedge future transactions typically have a maturity of between 6 months and 2 years.

### INTEREST RATE RISK

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In 2012, the Group financed its operations through shareholders' funds, bank borrowings, commercial bills, and the Capital Notes. The Capital Notes, which were purchased and cancelled during the year, carried fixed interest rates. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to bank facilities amounting to some £424 million, of which £305 million had been drawn down at year-end. This includes facilities negotiated by certain trading subsidiaries to meet their local needs.

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and risk appetite.

The Group's interest income does not vary significantly from the returns it would generate through investing surplus cash at floating rates of interest since the interest rates are re-set on a regular basis.

A reasonably possible change of one per cent in market interest rates would change profit before tax by approximately £2 million (2011: £1 million), and would change shareholders' funds by approximately £3 million (2011: £5 million).

Trade and other receivables and trade and other payables are excluded from the following disclosure (other than the currency disclosures) as there is limited interest rate risk.

### CAPITAL RISK MANAGEMENT

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The Group manages its capital so as to ensure that the Company and the Group will be able to continue as a going concern, whilst being able to take advantage of opportunities that arise and which are expected to provide profitable returns for shareholders and, following the Board's announcement to undertake an orderly value realisation as set out on page 2, to meet its commitment to return capital to shareholders.

The Group's capital structure comprises cash and cash equivalents and borrowings (see Summary of net cash/(debt) on page 44), and share capital and reserves attributable to the equity shareholders of the Company.

### CURRENCY EXPOSURE

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The table on page 87 shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts and cross-currency interest rate swaps held as hedges, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation. It also excludes investments held in equity shares, which are included in the Currency and Interest Rate Profile of Financial Assets table on page 88.

### 37. Derivatives and Other Financial Instruments – continued

| Functional currency<br>2012 | Net foreign currency financial assets/(liabilities) |                             |                              |                  |             | Total<br>£m |
|-----------------------------|-----------------------------------------------------|-----------------------------|------------------------------|------------------|-------------|-------------|
|                             | Sterling<br>£m                                      | Australian<br>dollars<br>£m | New Zealand<br>dollars<br>£m | US dollars<br>£m | Other<br>£m |             |
| <b>Sterling</b>             | –                                                   | (37)                        | 99                           | –                | (11)        | 51          |
| <b>US dollars</b>           | 6                                                   | 1                           | –                            | –                | (8)         | (1)         |
| <b>Other currencies</b>     | –                                                   | –                           | –                            | (34)             | –           | (34)        |
|                             | <b>6</b>                                            | <b>(36)</b>                 | <b>99</b>                    | <b>(34)</b>      | <b>(19)</b> | <b>16</b>   |

| Functional currency<br>2011* | Net foreign currency financial assets/(liabilities) |                             |                              |                  |             | Total<br>£m |
|------------------------------|-----------------------------------------------------|-----------------------------|------------------------------|------------------|-------------|-------------|
|                              | Sterling<br>£m                                      | Australian<br>dollars<br>£m | New Zealand<br>dollars<br>£m | US dollars<br>£m | Other<br>£m |             |
| <b>Sterling</b>              | –                                                   | 137                         | (118)                        | –                | (1)         | 18          |
| <b>US dollars</b>            | 10                                                  | 1                           | –                            | –                | (20)        | (9)         |
| <b>New Zealand dollars</b>   | 1                                                   | 2                           | –                            | 2                | –           | 5           |
| <b>Other currencies</b>      | –                                                   | –                           | –                            | (23)             | 2           | (21)        |
|                              | <b>11</b>                                           | <b>140</b>                  | <b>(118)</b>                 | <b>(21)</b>      | <b>(19)</b> | <b>(7)</b>  |

The following table shows the impact on pre-tax profit and shareholders' funds of reasonably possible changes in exchange rates against each of the major foreign currencies in which the Group transacts

|                                               | US dollars |            | Australian dollars |            | New Zealand dollars |            | Euros      |            |
|-----------------------------------------------|------------|------------|--------------------|------------|---------------------|------------|------------|------------|
|                                               | 2012<br>£m | 2011<br>£m | 2012<br>£m         | 2011<br>£m | 2012<br>£m          | 2011<br>£m | 2012<br>£m | 2011<br>£m |
| Increase in £ Sterling<br>exchange rate       | 9%         | 9%         | 9%                 | 7%         | 9%                  | 7%         | 9%         | 9%         |
| Increase/(decrease) in profit<br>before tax   | 1          | 1          | 3                  | (9)        | (8)                 | 7          | (1)        | 7          |
| (Decrease)/increase in<br>shareholders' funds | (14)       | (12)       | (1)                | (14)       | (8)                 | 7          | 2          | 11         |

\* Restated to include Turners & Growers Ltd

**37. Derivatives and Other Financial Instruments – continued****CURRENCY AND INTEREST RATE PROFILE OF FINANCIAL ASSETS**

The currency and interest rate profile of the Group's financial assets was as follows

| 31 December                       |                   |                                       |                                         |                                              |             | 2012              |                                       |                                         |                                              |             | 2011* |  |
|-----------------------------------|-------------------|---------------------------------------|-----------------------------------------|----------------------------------------------|-------------|-------------------|---------------------------------------|-----------------------------------------|----------------------------------------------|-------------|-------|--|
| Currency                          | Investments<br>£m | Cash<br>and cash<br>equivalents<br>£m | Trade and<br>other<br>receivables<br>£m | Derivative<br>financial<br>instruments<br>£m | Total<br>£m | Investments<br>£m | Cash<br>and cash<br>equivalents<br>£m | Trade and<br>other<br>receivables<br>£m | Derivative<br>financial<br>instruments<br>£m | Total<br>£m |       |  |
| Sterling                          | –                 | 114                                   | 5                                       | 19                                           | 138         | 78                | 73                                    | 8                                       | 5                                            | 164         |       |  |
| Australian dollars                | 86                | 29                                    | 18                                      | 1                                            | 134         | 133               | 22                                    | 28                                      | 1                                            | 184         |       |  |
| New Zealand<br>dollars            | –                 | 103                                   | –                                       | –                                            | 103         | –                 | 110                                   | 20                                      | –                                            | 130         |       |  |
| United States<br>dollars          | –                 | 24                                    | 63                                      | (55)                                         | 32          | –                 | 22                                    | 71                                      | 11                                           | 104         |       |  |
| Euros                             | 1                 | 5                                     | 32                                      | 24                                           | 62          | 1                 | 6                                     | 34                                      | (6)                                          | 35          |       |  |
| Other currencies                  | 1                 | 50                                    | 69                                      | 13                                           | 133         | 1                 | 50                                    | 82                                      | (9)                                          | 124         |       |  |
| <b>Total financial<br/>assets</b> | <b>88</b>         | <b>325</b>                            | <b>187</b>                              | <b>2</b>                                     | <b>602</b>  | <b>213</b>        | <b>283</b>                            | <b>243</b>                              | <b>2</b>                                     | <b>741</b>  |       |  |
| Fixed rate                        |                   | 13                                    |                                         |                                              | 13          |                   | 18                                    |                                         |                                              | 18          |       |  |
| Floating rate                     |                   | 304                                   |                                         |                                              | 304         |                   | 260                                   |                                         |                                              | 260         |       |  |
| No rate                           |                   | 8                                     |                                         |                                              | 8           |                   | 5                                     |                                         |                                              | 5           |       |  |
|                                   |                   | <u>325</u>                            |                                         |                                              | <u>325</u>  |                   | <u>283</u>                            |                                         |                                              | <u>283</u>  |       |  |

The investments included above comprise listed and unlisted investments in shares. The Group's investment portfolio principally comprises equity shares. All such investments have been excluded from the interest rate analysis because the investments do not generate a fixed entitlement to interest.

Cash balances of £13 million (2011: £18 million) have been placed on deposit with banks for a weighted average period of 0.8 months (2011: 5.5 months), and earn a weighted average interest rate of 1.07% (2011: 1.77%).

Cash balances of £304 million (2011: £260 million) which have been placed on deposit with banks for a variety of fixed periods, not exceeding three months, earn available market rates based on LIBID equivalents and are for these purposes classified as floating rate cash balances.

\*Restated to include Turners & Growers Ltd

### 37. Derivatives and Other Financial Instruments – continued

#### CURRENCY AND INTEREST RATE PROFILE OF FINANCIAL LIABILITIES

The currency and interest rate profile of the Group's financial liabilities was as follows

| 31 December                        | 2012                   |                     |                        |                                              |             | 2011*                  |                     |                        |                                              |             |
|------------------------------------|------------------------|---------------------|------------------------|----------------------------------------------|-------------|------------------------|---------------------|------------------------|----------------------------------------------|-------------|
| Currency                           | Floating<br>rate<br>£m | Fixed<br>rate<br>£m | Interest<br>free<br>£m | Derivative<br>financial<br>instruments<br>£m | Total<br>£m | Floating<br>rate<br>£m | Fixed<br>rate<br>£m | Interest<br>free<br>£m | Derivative<br>financial<br>instruments<br>£m | Total<br>£m |
| Sterling                           | 3                      | –                   | 16                     | –                                            | 19          | 3                      | –                   | 21                     | (13)                                         | 11          |
| Australian dollars                 | 20                     | –                   | 26                     | –                                            | 46          | 40                     | –                   | 30                     | –                                            | 70          |
| New Zealand dollars                | –                      | –                   | –                      | –                                            | –           | 5                      | 254                 | 25                     | –                                            | 284         |
| United States dollars              | 67                     | 197                 | 96                     | 6                                            | 366         | 83                     | 122                 | 105                    | 64                                           | 374         |
| Euros                              | 27                     | –                   | 27                     | 14                                           | 68          | 5                      | –                   | 30                     | (17)                                         | 18          |
| Other currencies                   | 14                     | –                   | 78                     | (13)                                         | 79          | 15                     | –                   | 85                     | (25)                                         | 75          |
| <b>Total financial liabilities</b> | <b>131</b>             | <b>197</b>          | <b>243</b>             | <b>7</b>                                     | <b>578</b>  | <b>151</b>             | <b>376</b>          | <b>296</b>             | <b>9</b>                                     | <b>832</b>  |

The benchmark for determining floating rate liabilities in the UK is LIBOR for both Sterling and US\$ loans. In New Zealand, floating rates are determined by reference to the New Zealand 90 Day Bank Bill rate, and in Australia such rates are based on discounted commercial loan rates.

Details of fixed rate and non interest-bearing liabilities (excluding derivatives) are provided below

| 31 December           | 2012                             |                                                          |                                                    |                                  | 2011*                                                    |                                                    |  |
|-----------------------|----------------------------------|----------------------------------------------------------|----------------------------------------------------|----------------------------------|----------------------------------------------------------|----------------------------------------------------|--|
|                       | Fixed rate financial liabilities |                                                          | Financial liabilities on which no interest is paid | Fixed rate financial liabilities |                                                          | Financial liabilities on which no interest is paid |  |
| Currency              | Weighted average interest rate % | Weighted average period for which rate is fixed (months) | Weighted average period until maturity (months)    | Weighted average interest rate % | Weighted average period for which rate is fixed (months) | Weighted average period until maturity (months)    |  |
| Sterling              | –                                | –                                                        | 26                                                 | –                                | –                                                        | 29                                                 |  |
| New Zealand dollars   | –                                | –                                                        | –                                                  | 7.71%                            | 8                                                        | –                                                  |  |
| United States dollars | 4.20%                            | 30                                                       | –                                                  | 5.40%                            | 15                                                       | –                                                  |  |
| Other currencies      | –                                | –                                                        | –                                                  | 10.40%                           | 30                                                       | –                                                  |  |
| Weighted average      | 4.20%                            | 30                                                       | 26                                                 | 6.96%                            | 10                                                       | 29                                                 |  |

\*Restated to include Turners & Growers Ltd

**37. Derivatives and Other Financial Instruments – continued****CURRENCY PROFILE OF FOREIGN EXCHANGE DERIVATIVES**

The currency profile of the Group's foreign exchange derivatives (on a gross basis), all of which mature in less than one year, was as follows

| 31 December           | <b>Assets</b>      |                    | <b>Liabilities</b> |                    |
|-----------------------|--------------------|--------------------|--------------------|--------------------|
|                       | <b>2012<br/>£m</b> | <b>2011<br/>£m</b> | <b>2012<br/>£m</b> | <b>2011<br/>£m</b> |
| <b>Currency</b>       |                    |                    |                    |                    |
| Sterling              | <b>19</b>          | 18                 | –                  | –                  |
| Australian dollars    | <b>1</b>           | 1                  | –                  | –                  |
| United States dollars | <b>41</b>          | 40                 | <b>(97)</b>        | (87)               |
| Euros                 | <b>40</b>          | 40                 | <b>(29)</b>        | (30)               |
| Other currencies      | <b>44</b>          | 32                 | <b>(18)</b>        | (15)               |
|                       | <b>145</b>         | 131                | <b>(144)</b>       | (132)              |

The £1 million net asset (2011: £1 million net liability) in relation to foreign exchange financial instruments in the table above is split £2 million (2011: £2 million) within assets (note 21) and £1 million (2011: £3 million) within liabilities (note 23)

**MARKET PRICE RISK**

The Group can be affected by market price movements on its equity investments. Notwithstanding the strategy to undertake an orderly value realisation as discussed on page 2, the Board continues to believe it is not economic to hedge market price risk. Existing investments are continually monitored and managed in the light of new information or market movements.

Equity swaps, equity options and contracts for differences have been purchased from time to time as part of the Group's investment portfolio. These derivatives no longer form a significant proportion of the portfolio.

The sensitivity analyses below have been determined based on the exposure to reasonably possible price changes for the investments held at the year end.

Equities (excluding pension schemes)

|                                         | <b>2012<br/>£m</b> | <b>2011<br/>£m</b> |
|-----------------------------------------|--------------------|--------------------|
| Impact of a 10% increase in prices      |                    |                    |
| Increase in pre-tax profit for the year | <b>1</b>           | 1                  |
| Increase in equity shareholders' funds  | <b>9</b>           | 5                  |

The impact of equivalent decreases in prices on pre-tax profit and equity shareholders' funds would be the reverse of the increases shown above.

## 37. Derivatives and Other Financial Instruments – continued

### LIQUIDITY RISK

Following the Board's announcement of the strategy to undertake an orderly value realisation, as described on page 2 in the Chairman's statement, the Group's liquidity risk has evolved from the necessity to have access to funds to take advantage of attractive investment opportunities arising, to having sufficient funds to realise maximum value from its existing investments and to meet its commitments to return capital to shareholders. Cash proceeds from the orderly realisation of investments are to be used to return capital to shareholders. Such return of capital is to be executed having regard to the actual and contingent liabilities of the Group and, hence, requires liquidity risk to be effectively managed. In response to this, the Group typically holds cash balances in deposits with a short maturity. Additional resources can be drawn through committed borrowing facilities at operating subsidiary level. During the year the Group has complied with all externally imposed capital requirements.

The Group had the following undrawn committed borrowing facilities, in respect of which all conditions precedent had been met at the year-end:

| 31 December                         | 2012<br>£m | 2011*<br>£m |
|-------------------------------------|------------|-------------|
| Expiring within one year            | –          | 8           |
| Expiring between one and two years  | 17         | –           |
| Expiring between two and five years | 102        | 334         |
|                                     | <b>119</b> | <b>342</b>  |

### MATURITY OF UNDISCOUNTED FINANCIAL ASSETS (EXCLUDING DERIVATIVES)

The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

| 31 December                                         | 2012<br>£m | 2011*<br>£m |
|-----------------------------------------------------|------------|-------------|
| In one year or less, or on demand                   | 584        | 728         |
| In more than one year but not more than two years   | 10         | 7           |
| In more than two years but not more than five years | 4          | 2           |
| In more than five years                             | 2          | 2           |
|                                                     | <b>600</b> | <b>739</b>  |

### MATURITY OF UNDISCOUNTED FINANCIAL LIABILITIES (EXCLUDING DERIVATIVES)

The maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

| 31 December                                         | 2012<br>£m | 2011*<br>£m |
|-----------------------------------------------------|------------|-------------|
| In one year or less, or on demand                   | 254        | 358         |
| In more than one year but not more than two years   | 65         | 185         |
| In more than two years but not more than five years | 259        | 298         |
| In more than five years                             | 1          | 5           |
|                                                     | <b>579</b> | <b>846</b>  |

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

\*Restated to include Turners & Growers Ltd

**37. Derivatives and Other Financial Instruments – continued****MATURITY OF UNDISCOUNTED FINANCIAL DERIVATIVES**

The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows was as follows

| 31 December                                         | Assets     |             | Liabilities  |              |
|-----------------------------------------------------|------------|-------------|--------------|--------------|
|                                                     | 2012<br>£m | 2011*<br>£m | 2012<br>£m   | 2011*<br>£m  |
| In one year or less, or on demand                   | 145        | 147         | (147)        | (150)        |
| In more than one year but not more than two years   | –          | –           | (2)          | (3)          |
| In more than two years but not more than five years | –          | –           | (2)          | (2)          |
|                                                     | <u>145</u> | <u>147</u>  | <u>(151)</u> | <u>(155)</u> |

**CREDIT RISK**

| 31 December | 2012<br>£m | 2011*<br>£m |
|-------------|------------|-------------|
|-------------|------------|-------------|

**The Group considers its maximum exposure to credit risk to be as follows**

|                                                     |            |            |
|-----------------------------------------------------|------------|------------|
| Cash and cash equivalents                           | 325        | 283        |
| Derivative financial instruments                    | 2          | 2          |
| Trade receivables (net of bad debt provision)       | 153        | 204        |
| Due from associated undertakings and joint ventures | 8          | 13         |
| Other receivables                                   | 26         | 26         |
|                                                     | <u>514</u> | <u>528</u> |

**Financial assets considered not to have exposure to credit risk**

|                               |            |            |
|-------------------------------|------------|------------|
| Current asset investments     | 10         | 10         |
| Non-current asset investments | 78         | 203        |
| Total financial assets        | <u>602</u> | <u>741</u> |

**Analysis of trade receivables over permitted credit period**

|                                                                       |            |            |
|-----------------------------------------------------------------------|------------|------------|
| Trade receivables up to 1 month over permitted credit period          | 18         | 23         |
| Trade receivables between 1 and 2 months over permitted credit period | 5          | 5          |
| Trade receivables between 2 and 3 months over permitted credit period | 2          | 3          |
| Trade receivables between 3 and 6 months over permitted credit period | 2          | 2          |
| Trade receivables in excess of 6 months over permitted credit period  | –          | –          |
| Total gross trade receivables in excess of permitted credit period    | <u>27</u>  | <u>33</u>  |
| Trade receivables within permitted credit period                      | <u>126</u> | <u>171</u> |
| Total net trade receivables                                           | <u>153</u> | <u>204</u> |

**Analysis of trade receivables impairment provision**

|                                                                       |           |           |
|-----------------------------------------------------------------------|-----------|-----------|
| Trade receivables between 3 and 6 months over permitted credit period | 1         | 1         |
| Trade receivables in excess of 6 months over permitted credit period  | 10        | 10        |
| Total impairment provision                                            | <u>11</u> | <u>11</u> |

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual, or more frequent if appropriate, review of their credit limits and credit periods.

The Group does not have a significant credit risk exposure to any single customer.

\*Restated to include Turners & Growers Ltd

## 37. Derivatives and Other Financial Instruments – continued

### HEDGES

During 2012, the Group hedged the following exposures

- interest rate risk – using interest rate swaps
- currency risk – using forward foreign currency contracts and cross-currency interest rate swaps

At 31 December 2012, the fair value of such hedging instruments was a net liability of £6 million (2011 £7 million)

Cash flow hedges outstanding at 31 December 2012 are expected to impact the income statement in the following periods

|                          | 2012<br>£m<br>Loss | 2011<br>£m<br>Loss |
|--------------------------|--------------------|--------------------|
| Within one year          | (3)                | (3)                |
| Within one to two years  | (2)                | (2)                |
| Within two to five years | (1)                | (2)                |
|                          | <u>(6)</u>         | <u>(7)</u>         |

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

### GAINS/(LOSSES) ON FINANCIAL ASSETS/LIABILITIES

The net gain from buying and selling financial assets and financial liabilities included in the income statement is analysed as follows

| Year ended 31 December                                   | 2012<br>£m | 2011<br>£m |
|----------------------------------------------------------|------------|------------|
| Gains on disposal of investments (excluding derivatives) | 75         | 28         |
| Losses on disposal of equity options and equity swaps    | –          | (8)        |
| Net investment impairment provision                      | (3)        | (10)       |
| Net gain on other financial assets/liabilities           | –          | 1          |
|                                                          | <u>72</u>  | <u>11</u>  |

## 38. Share-based Payments

GPG's share option schemes provide for a grant price equal to the average quoted market price of GPG shares for 1 to 5 days prior to the date of the grant. The vesting period is 3 years, and any options that remain unexercised after 10 years from the date of grant automatically lapse. Option forfeiture where an employee leaves the Group can occur in certain circumstances.

Only options granted after 7 November 2002 are required to be analysed in this note.

|                                           | 2012              |                                 | 2011              |                                 |
|-------------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                           | Options           | Weighted average exercise price | Options           | Weighted average exercise price |
| Outstanding at beginning of year          | 91,385,045        | 46 81p                          | 93,336,262        | 46 30p                          |
| Lapsed during the year                    | (2,059,603)       | 52 37p                          | –                 | –                               |
| Impact of rebasing due to capital return* | (1,407,226)       | 0 72p                           | –                 | –                               |
| Exercised during the year                 | (338,248)         | 24 88p                          | (1,951,217)       | 22 18p                          |
| Outstanding at end of year                | <u>87,579,968</u> | <u>47 53p</u>                   | <u>91,385,045</u> | <u>46 81p</u>                   |
| Exercisable at end of year                | <u>87,579,968</u> | <u>47 53p</u>                   | <u>86,798,046</u> | <u>47 94p</u>                   |

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 3.0 years (2011 4.1 years).

\*During the year the number and respective exercise price of each outstanding grant of options was adjusted to take account of the 2011 capital return.

### 38. Share-based Payments – continued

The charge to the income statement in respect of GPG share options is calculated using a stochastic valuation model based on the methodology underlying the Black-Scholes model, projecting forward the Company share price and calculating the value earned when the options are exercised and discounting this back to the calculation date

The assumptions in the model are as follows

|                         |                |
|-------------------------|----------------|
| Volatility              | 20% per annum  |
| Risk free interest rate | 2.6% per annum |
| Dividend at grant       | 1p per share   |

The Directors have set the volatility assumption after analysing the historical volatility of the Group share price and taking account of the current levels of equity market volatility. To allow for the effects of early exercise it was assumed that in each simulation the options were exercised as soon as they were "in the money" and these values were averaged to get the overall price.

The Group recognised total expenses of £Nil related to equity-settled share-based payments in the year ended 31 December 2012 (2011: £1 million)

# Coats Financial Information

## Consolidated Income Statement (unaudited)

Year ended 31 December

|                                                 |       | 2012                                                 |                                            |                             | 2011                                                 |                                            |                             |
|-------------------------------------------------|-------|------------------------------------------------------|--------------------------------------------|-----------------------------|------------------------------------------------------|--------------------------------------------|-----------------------------|
|                                                 | Notes | Before<br>exceptional<br>items<br>Unaudited<br>US\$m | Exceptional<br>items<br>Unaudited<br>US\$m | Total<br>Unaudited<br>US\$m | Before<br>exceptional<br>items<br>Unaudited<br>US\$m | Exceptional<br>items<br>Unaudited<br>US\$m | Total<br>Unaudited<br>US\$m |
| <b>Continuing operations</b>                    |       |                                                      |                                            |                             |                                                      |                                            |                             |
| Revenue                                         |       | 1,653.4                                              | –                                          | <b>1,653.4</b>              | 1,701.6                                              | –                                          | 1,701.6                     |
| Cost of sales                                   |       | (1,065.0)                                            | (132.5)                                    | <b>(1,197.5)</b>            | (1,087.9)                                            | (16.1)                                     | (1,104.0)                   |
| <b>Gross profit</b>                             |       | 588.4                                                | (132.5)                                    | <b>455.9</b>                | 613.7                                                | (16.1)                                     | 597.6                       |
| Distribution costs                              |       | (280.3)                                              | –                                          | <b>(280.3)</b>              | (289.9)                                              | –                                          | (289.9)                     |
| Administrative expenses                         |       | (181.1)                                              | 2.6                                        | <b>(178.5)</b>              | (180.2)                                              | 1.4                                        | (178.8)                     |
| Other operating (costs)/income                  |       | –                                                    | (1.8)                                      | <b>(1.8)</b>                | –                                                    | 2.7                                        | 2.7                         |
| <b>Operating profit/(loss)</b>                  |       | 127.0                                                | (131.7)                                    | <b>(4.7)</b>                | 143.6                                                | (12.0)                                     | 131.6                       |
| Share of profits of joint ventures              |       | 1.1                                                  | –                                          | <b>1.1</b>                  | 2.1                                                  | –                                          | 2.1                         |
| Investment income                               |       | 2.6                                                  | –                                          | <b>2.6</b>                  | 7.3                                                  | –                                          | 7.3                         |
| Finance costs                                   | 3     | (19.4)                                               | (35.8)                                     | <b>(55.2)</b>               | (16.8)                                               | –                                          | (16.8)                      |
| <b>Profit/(loss) before taxation</b>            | 2     | 111.3                                                | (167.5)                                    | <b>(56.2)</b>               | 136.2                                                | (12.0)                                     | 124.2                       |
| Taxation                                        | 4     | (50.5)                                               | 3.9                                        | <b>(46.6)</b>               | (47.7)                                               | 2.1                                        | (45.6)                      |
| <b>Profit/(loss) from continuing operations</b> |       | 60.8                                                 | (163.6)                                    | <b>(102.8)</b>              | 88.5                                                 | (9.9)                                      | 78.6                        |
| <b>Discontinued operations</b>                  |       |                                                      |                                            |                             |                                                      |                                            |                             |
| Loss from discontinued operations               |       | (2.7)                                                | –                                          | <b>(2.7)</b>                | (1.8)                                                | –                                          | (1.8)                       |
| <b>PROFIT/(LOSS) FOR THE YEAR</b>               |       | 58.1                                                 | (163.6)                                    | <b>(105.5)</b>              | 86.7                                                 | (9.9)                                      | 76.8                        |
| <b>Attributable to</b>                          |       |                                                      |                                            |                             |                                                      |                                            |                             |
| <b>EQUITY SHAREHOLDERS OF THE COMPANY</b>       |       |                                                      |                                            |                             |                                                      |                                            |                             |
|                                                 |       | 50.6                                                 | (163.6)                                    | <b>(113.0)</b>              | 81.1                                                 | (9.9)                                      | 71.2                        |
| Non-controlling interests                       |       | 7.5                                                  | –                                          | <b>7.5</b>                  | 5.6                                                  | –                                          | 5.6                         |
|                                                 |       | 58.1                                                 | (163.6)                                    | <b>(105.5)</b>              | 86.7                                                 | (9.9)                                      | 76.8                        |

# Coats Financial Information

## Consolidated Statement of Comprehensive Income (unaudited)

Year ended 31 December

|                                                            | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|------------------------------------------------------------|----------------------------|----------------------------|
| (Loss)/profit for the year                                 | (105 5)                    | 76 8                       |
| Cash flow hedges                                           |                            |                            |
| – Losses arising during the year                           | (4 7)                      | (7 5)                      |
| – Transferred to profit or loss on cash flow hedges        | 5 7                        | 6 2                        |
| Exchange differences on translation of foreign operations  | (7 4)                      | (36 7)                     |
| Actuarial losses in respect of retirement benefit schemes  | (35 9)                     | (299 3)                    |
| Tax relating to components of other comprehensive income   | (0 4)                      | (0 1)                      |
| <b>Other comprehensive income and expense for the year</b> | <b>(42 7)</b>              | <b>(337 4)</b>             |
| <b>Total comprehensive income and expense for the year</b> | <b>(148 2)</b>             | <b>(260 6)</b>             |
| <b>Attributable to</b>                                     |                            |                            |
| <b>EQUITY SHAREHOLDERS OF THE COMPANY</b>                  | <b>(155 8)</b>             | <b>(265 8)</b>             |
| Non-controlling interests                                  | 7 6                        | 5 2                        |
|                                                            | <b>(148 2)</b>             | <b>(260 6)</b>             |

## Consolidated Statement of Financial Position (unaudited)

At 31 December

|                                                | Notes | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|------------------------------------------------|-------|----------------------------|----------------------------|
| <b>NON-CURRENT ASSETS</b>                      |       |                            |                            |
| Intangible assets                              |       | 260 1                      | 262 1                      |
| Property, plant and equipment                  |       | 366 9                      | 393 4                      |
| Investments in joint ventures                  |       | 13 4                       | 16 1                       |
| Available-for-sale investments                 |       | 3 1                        | 2 7                        |
| Deferred tax assets                            |       | 15.1                       | 13 5                       |
| Pension surpluses                              |       | 34 6                       | 30 7                       |
| Trade and other receivables                    |       | 15 1                       | 14 6                       |
|                                                |       | <b>708.3</b>               | <b>733 1</b>               |
| <b>CURRENT ASSETS</b>                          |       |                            |                            |
| Inventories                                    |       | 310 8                      | 316 7                      |
| Trade and other receivables                    |       | 309 3                      | 305 7                      |
| Available-for-sale investments                 |       | 0 2                        | 1 0                        |
| Cash and cash equivalents                      | 7     | 128 4                      | 112 0                      |
|                                                |       | <b>748 7</b>               | <b>735 4</b>               |
| Non-current assets classified as held for sale |       | 3 0                        | 0 1                        |
| <b>TOTAL ASSETS</b>                            |       | <b>1,460 0</b>             | <b>1,468 6</b>             |
| <b>CURRENT LIABILITIES</b>                     |       |                            |                            |
| Trade and other payables                       |       | (347 4)                    | (347 4)                    |
| Current income tax liabilities                 |       | (14 6)                     | (7 9)                      |
| Bank overdrafts and other borrowings           |       | (43 9)                     | (60 9)                     |
| Provisions                                     |       | (71 1)                     | (97 8)                     |
|                                                |       | <b>(477 0)</b>             | <b>(514 0)</b>             |
| <b>NET CURRENT ASSETS</b>                      |       | <b>271 7</b>               | <b>221 4</b>               |
| <b>NON-CURRENT LIABILITIES</b>                 |       |                            |                            |
| Trade and other payables                       |       | (22 6)                     | (20 6)                     |
| Deferred tax liabilities                       |       | (40 6)                     | (39 3)                     |
| Borrowings                                     |       | (452 1)                    | (289 5)                    |
| Retirement benefit obligations                 |       |                            |                            |
| Funded schemes                                 |       | (245 6)                    | (243 5)                    |
| Unfunded schemes                               |       | (99 4)                     | (84 3)                     |
| Provisions                                     |       | (24 9)                     | (25 8)                     |
|                                                |       | <b>(885 2)</b>             | <b>(703 0)</b>             |
| <b>TOTAL LIABILITIES</b>                       |       | <b>(1,362 2)</b>           | <b>(1,217 0)</b>           |
| <b>NET ASSETS</b>                              |       | <b>97 8</b>                | <b>251 6</b>               |
| <b>EQUITY</b>                                  |       |                            |                            |
| Share capital                                  |       | 20 5                       | 20 5                       |
| Share premium account                          |       | 412 1                      | 412 1                      |
| Hedging and translation reserves               |       | (25 5)                     | (19 0)                     |
| Retained loss                                  |       | (329 2)                    | (179 9)                    |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>              |       | <b>77 9</b>                | <b>233 7</b>               |
| Non-controlling interests                      | 5     | 19 9                       | 17 9                       |
| <b>TOTAL EQUITY</b>                            |       | <b>97 8</b>                | <b>251 6</b>               |

# Coats Financial Information

## Consolidated Statement of Changes in Equity (unaudited)

|                                                     | Share capital<br>Unaudited<br>US\$m | Share<br>premium<br>account<br>Unaudited<br>US\$m | Hedging<br>reserve<br>Unaudited<br>US\$m | Translation<br>reserve<br>Unaudited<br>US\$m | Retained<br>profit/(loss)<br>Unaudited<br>US\$m | Total<br>Unaudited<br>US\$m |
|-----------------------------------------------------|-------------------------------------|---------------------------------------------------|------------------------------------------|----------------------------------------------|-------------------------------------------------|-----------------------------|
| Balance as at 1 January 2011                        | 20.5                                | 412.1                                             | (8.8)                                    | 27.4                                         | 48.3                                            | 499.5                       |
| Profit for the year                                 | –                                   | –                                                 | –                                        | –                                            | 71.2                                            | 71.2                        |
| Other comprehensive income and expense for the year | –                                   | –                                                 | (1.3)                                    | (36.3)                                       | (299.4)                                         | (337.0)                     |
| Total comprehensive income and expense for the year | –                                   | –                                                 | (1.3)                                    | (36.3)                                       | (228.2)                                         | (265.8)                     |
| BALANCE AS AT 31 DECEMBER 2011                      | 20.5                                | 412.1                                             | (10.1)                                   | (8.9)                                        | (179.9)                                         | 233.7                       |
| Loss for the year                                   | –                                   | –                                                 | –                                        | –                                            | (113.0)                                         | (113.0)                     |
| Other comprehensive income and expense for the year | –                                   | –                                                 | 1.0                                      | (7.5)                                        | (36.3)                                          | (42.8)                      |
| Total comprehensive income and expense for the year | –                                   | –                                                 | 1.0                                      | (7.5)                                        | (149.3)                                         | (155.8)                     |
| <b>BALANCE AS AT 31 DECEMBER 2012</b>               | <b>20.5</b>                         | <b>412.1</b>                                      | <b>(9.1)</b>                             | <b>(16.4)</b>                                | <b>(329.2)</b>                                  | <b>77.9</b>                 |

## Consolidated Statement of Cash Flows (unaudited)

Year ended 31 December

|                                                                    | Notes | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|--------------------------------------------------------------------|-------|----------------------------|----------------------------|
| <b>Cash inflow/(outflow) from operating activities</b>             |       |                            |                            |
| Net cash inflow generated by operations*                           | 6     | 8 3                        | 134 0                      |
| Interest paid**                                                    |       | (63 1)                     | (20 5)                     |
| Taxation paid                                                      |       | (35 3)                     | (40 2)                     |
| <b>Net cash (absorbed in)/generated from operating activities</b>  |       | <b>(90 1)</b>              | <b>73 3</b>                |
| <b>Cash inflow/(outflow) from investing activities</b>             |       |                            |                            |
| Dividends received from joint ventures                             |       | 0 9                        | 0 8                        |
| Acquisition of property, plant and equipment and intangible assets |       | (38 8)                     | (50 5)                     |
| Disposal of property, plant and equipment and intangible assets    |       | 1 7                        | 2 0                        |
| Acquisition of financial investments                               |       | (0 5)                      | (0 9)                      |
| Disposal of financial investments                                  |       | 0 3                        | –                          |
| Acquisition of businesses                                          |       | –                          | (1 1)                      |
| Disposal of subsidiaries                                           |       | (0 7)                      | (1 0)                      |
| Disposal of investments in joint ventures                          |       | 2 8                        | –                          |
| <b>Net cash absorbed in investing activities</b>                   |       | <b>(34 3)</b>              | <b>(50 7)</b>              |
| <b>Cash inflow/(outflow) from financing activities</b>             |       |                            |                            |
| Dividends paid to non-controlling interests                        |       | (5 6)                      | (4 6)                      |
| Increase/(decrease) in debt and lease financing                    |       | 151 9                      | (36 3)                     |
| <b>Net cash generated from/(absorbed in) financing activities</b>  |       | <b>146 3</b>               | <b>(40 9)</b>              |
| <b>Net increase/(decrease) in cash and cash equivalents</b>        |       | <b>21 9</b>                | <b>(18 3)</b>              |
| Net cash and cash equivalents at beginning of the year             |       | 85 6                       | 115 5                      |
| Foreign exchange gains/(losses) on cash and cash equivalents       |       | 2 9                        | (11 6)                     |
| <b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>            | 7     | <b>110 4</b>               | <b>85 6</b>                |
| <b>Reconciliation of net cash flow to movement in net debt</b>     |       |                            |                            |
| Net increase/(decrease) in cash and cash equivalents               |       | 21 9                       | (18 3)                     |
| Cash (inflow)/outflow from change in debt and lease financing      |       | (151 9)                    | 36 3                       |
| Change in net debt resulting from cash flows                       |       | (130 0)                    | 18 0                       |
| Other                                                              |       | (2 3)                      | (4 5)                      |
| Foreign exchange                                                   |       | 3 1                        | (10 0)                     |
| (Increase)/decrease in net debt                                    |       | (129 2)                    | 3 5                        |
| Net debt at start of year                                          |       | (238 4)                    | (241 9)                    |
| Net debt at end of year                                            | 7     | <b>(367 6)</b>             | <b>(238 4)</b>             |

\* Net cash inflow from operating activities in 2012 includes US\$139.0 million paid in respect of the European Commission fine

\*\* Interest paid in 2012 includes US\$35.8 million paid in respect of the European Commission fine

# Coats Financial Information

## Notes to Financial Information

### 1 Basis of preparation

The financial information contained in this section of the report represents the unaudited results of Coats as contained within the audited consolidated financial information of GPG for the year end 31 December 2012

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 the inclusion in the balance sheet both at 31 December 2011 and 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.

Following the market update announcement made on 25 October 2012 regarding the strategy to realise value, GPG has estimated the CIP is unlikely to have any value in its current form and has released the provision held for this arrangement. That release has been incorporated into these Coats results (see note 2).

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 is yet to be formalised.

CGL is incorporated in the British Virgin Islands. It does not prepare consolidated statutory accounts and, therefore, the financial information contained in this section of the report does not constitute full financial statements and has not been, and will not be, audited, other than in so far as it is contained within the financial information of its ultimate parent company, GPG.

The financial information for the year ended 31 December 2012 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) endorsed by the European Union. The same accounting policies have been applied to the financial information presented for the year ended 31 December 2011.

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

|          |          | 2012 | 2011 |
|----------|----------|------|------|
| Average  | Sterling | 0.63 | 0.62 |
|          | Euro     | 0.78 | 0.72 |
| Year end | Sterling | 0.62 | 0.64 |
|          | Euro     | 0.76 | 0.77 |

**2 Profit/(loss) before taxation is stated after charging/(crediting)**

|                                                                                            | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|--------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>Exceptional items</b>                                                                   |                            |                            |
| <i>Cost of sales</i>                                                                       |                            |                            |
| European Commission fine and associated exchange losses/(gains)                            | 84.6                       | (1.0)                      |
| Reorganisation costs and impairment of property, plant and equipment and intangible assets | 39.9                       | 14.6                       |
| US environmental costs                                                                     | 8.0                        | 2.5                        |
|                                                                                            | <b>132.5</b>               | <b>16.1</b>                |
| <i>Administrative expenses</i>                                                             |                            |                            |
| Capital incentive plan (credit)/charge (see note 1)                                        | (2.6)                      | 2.6                        |
| UK pension increase exchange offer                                                         | –                          | (4.0)                      |
|                                                                                            | <b>(2.6)</b>               | <b>(1.4)</b>               |
| <i>Other operating costs/(income)</i>                                                      |                            |                            |
| Loss/(profit) on disposal of property                                                      | 1.8                        | (2.7)                      |
|                                                                                            | <b>131.7</b>               | <b>12.0</b>                |
| <i>Finance costs</i>                                                                       |                            |                            |
| European Commission fine interest costs                                                    | 35.8                       | –                          |
| <b>Total</b>                                                                               | <b>167.5</b>               | <b>12.0</b>                |

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 \$110 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 costs. During the year, 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, and TMO's continued funding of the RI/FS is in question. If TMO continues to fund the RI/FS pursuant to its independent agreement with USEPA, CC's interim allocation of future RI/FS costs would remain approximately 1.7%. If TMO ceases its RI/FS funding, CC's interim allocation of future RI/FS costs would be approximately 2.2%. 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 a final allocation will include TMO as well as additional parties not currently in the CPG.

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 in 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 the year, 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. The \$8.0 million (2011 – \$2.5 million) US environmental charge is primarily connected with CC's latest estimated share of study costs and associated legal and consultancy costs and this remediation.

CC has identified a number of insurance policies that it believes will cover some of the costs previously incurred and to be incurred in respect of this matter, and it is investigating and pursuing its rights under those policies. The availability and extent of coverage under those policies has yet to be determined, and therefore CC has not assumed any insurance recovery in calculating its environmental 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.

# Coats Financial Information

## Notes to Financial Information (continued)

### 3 Finance costs

|                                                      | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|------------------------------------------------------|----------------------------|----------------------------|
| <b>Non-exceptional items</b>                         |                            |                            |
| Interest on bank and other borrowings                | 25 0                       | 23 8                       |
| Net return on pension scheme assets and liabilities  | (14 9)                     | (16 9)                     |
| Other                                                | 9 3                        | 9 9                        |
|                                                      | <u>19 4</u>                | <u>16 8</u>                |
| <b>Exceptional items</b>                             |                            |                            |
| European Commission fine interest costs (see note 2) | 35 8                       | –                          |
| Total                                                | <u>55 2</u>                | <u>16 8</u>                |

### 4 Taxation

|                                          | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|------------------------------------------|----------------------------|----------------------------|
| UK taxation based on profit for the year |                            |                            |
| Corporation tax at 24.5% (2011: 26.5%)   | 3 7                        | 3 5                        |
| Double taxation relief                   | (3 7)                      | (3 5)                      |
| Total UK taxation                        | <u>–</u>                   | <u>–</u>                   |
| Overseas taxation                        |                            |                            |
| Current taxation                         | 47 4                       | 40 4                       |
| Deferred taxation                        | (0 5)                      | 5 4                        |
|                                          | <u>46 9</u>                | <u>45 8</u>                |
| Prior year adjustments                   |                            |                            |
| Current taxation                         | (0 7)                      | (1 1)                      |
| Deferred taxation                        | 0 4                        | 0 9                        |
|                                          | <u>(0 3)</u>               | <u>(0 2)</u>               |
|                                          | <u>46 6</u>                | <u>45 6</u>                |

**5 Non-controlling interests**

|                                                  | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|--------------------------------------------------|----------------------------|----------------------------|
| <b>At 1 January</b>                              | <b>17 9</b>                | 17 3                       |
| Total recognised income and expense for the year | <b>7 6</b>                 | 5 2                        |
| Dividends paid                                   | <b>(5 6)</b>               | (4 6)                      |
| <b>At 31 December</b>                            | <b>19 9</b>                | 17 9                       |

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

|                                                        | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|--------------------------------------------------------|----------------------------|----------------------------|
| Operating (loss)/profit                                | <b>(4 7)</b>               | 131 6                      |
| Depreciation                                           | <b>47 1</b>                | 49 0                       |
| Amortisation of intangible assets (computer software)  | <b>5 7</b>                 | 8 0                        |
| Reorganisation costs and impairment (see note 2)       | <b>39 9</b>                | 14 6                       |
| Other exceptional items (see note 2)                   | <b>91 8</b>                | (2 6)                      |
| Decrease/(increase) in inventories                     | <b>2 9</b>                 | (33 6)                     |
| Increase in debtors                                    | <b>(5 3)</b>               | (1 3)                      |
| Increase in creditors                                  | <b>9 4</b>                 | 5 4                        |
| Provision movements                                    | <b>(16 3)</b>              | (23 2)                     |
| Other non-cash movements                               | <b>1 3</b>                 | 2 4                        |
| Net cash inflow from normal operating activities       | <b>171 8</b>               | 150 3                      |
| Net cash outflow in respect of reorganisation costs    | <b>(21 4)</b>              | (13 7)                     |
| Net cash outflow in respect of other exceptional items | <b>(142 1)</b>             | (2 6)                      |
| Net cash inflow generated by operations                | <b>8 3</b>                 | 134 0                      |

**7 Net debt**

|                               | 2012<br>Unaudited<br>US\$m | 2011<br>Unaudited<br>US\$m |
|-------------------------------|----------------------------|----------------------------|
| Cash and cash equivalents     | <b>128 4</b>               | 112 0                      |
| Bank overdrafts               | <b>(18 0)</b>              | (26 4)                     |
| Net cash and cash equivalents | <b>110 4</b>               | 85 6                       |
| Other borrowings              | <b>(478 0)</b>             | (324 0)                    |
| Total net debt                | <b>(367 6)</b>             | (238 4)                    |

# Supplementary Information

## Supplementary information required by the Australian Securities Stock Exchange listing rules for the year ended 31 December 2012 (unaudited)

a) The top 20 registered holdings of the issued Ordinary Shares of 5p each ("Ordinary Shares")\* at 28 February 2013 were as follows

| Registered Holder                                                            | Holding     | % Issued shares |
|------------------------------------------------------------------------------|-------------|-----------------|
| Citibank Nominees (New Zealand) Limited – <NZCSD>**                          | 155,112,378 | 10.25           |
| BNP Paribas Nominees (NZ) Limited – <NZCSD>                                  | 108,495,716 | 7.17            |
| Accident Compensation Corporation – <NZCSD>                                  | 104,507,420 | 6.91            |
| JPMorgan Chase Bank NA – <NZCSD>                                             | 96,321,990  | 6.37            |
| HSBC Nominees (New Zealand) Limited A/C State Street – <NZCSD>               | 86,551,713  | 5.72            |
| National Nominees New Zealand Limited – <NZCSD>                              | 84,233,612  | 5.57            |
| HSBC Nominees (New Zealand) Limited – <NZCSD>                                | 60,218,885  | 3.98            |
| Westpac NZ Shares 2002 Wholesale Trust – A/C <NZCSD>                         | 38,967,758  | 2.58            |
| Sir Ron Brierley                                                             | 31,882,765  | 2.11            |
| Premier Nominees Ltd – Onepath Wholesale Australasian SHR Fund – <NZCSD>     | 28,744,661  | 1.90            |
| New Zealand Superannuation Fund Nominees Limited – <NZCSD>                   | 26,448,875  | 1.75            |
| RBC Investor Services Australia Nominees Pty Limited                         | 21,610,944  | 1.43            |
| BT NZ Unit Trust Nominees Limited – <NZCSD>                                  | 20,511,931  | 1.36            |
| HSBC Custody Nominees (Australia) Limited                                    | 18,290,267  | 1.21            |
| Blake Andrew Nixon                                                           | 17,811,406  | 1.18            |
| Citicorp Nominees Pty Limited                                                | 16,987,290  | 1.12            |
| JP Morgan Nominees Australia Limited                                         | 12,204,648  | 0.81            |
| BNP Paribas Noms Pty Ltd                                                     | 12,070,102  | 0.80            |
| Premier Nominees Limited – Onepath Wholesale Equity Selection Fund – <NZCSD> | 10,718,209  | 0.71            |
| National Nominees Ltd                                                        | 9,693,516   | 0.64            |

b) The spread of holdings in the issued Ordinary Shares at 28 February 2013 was as follows

| Holding           | No. Holders   | %             | No. of shares        | %             |
|-------------------|---------------|---------------|----------------------|---------------|
| 1 to 1,000        | 3,759         | 15.58         | 1,095,554            | 0.07          |
| 1,001 to 5,000    | 7,184         | 29.77         | 19,687,388           | 1.30          |
| 5,001 to 10,000   | 4,239         | 17.57         | 30,606,633           | 2.02          |
| 10,001 to 100,000 | 8,203         | 34.00         | 234,537,618          | 15.50         |
| Over 100,001      | 744           | 3.08          | 1,227,378,093        | 81.11         |
|                   | <b>24,129</b> | <b>100.00</b> | <b>1,513,305,286</b> | <b>100.00</b> |

The number of holders holding less than a marketable parcel of GPG Ordinary Shares as at 28 February 2013 was 3,843

GPG is incorporated in England and Wales, and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares. The UK Takeover Code, which applies to GPG, limits acquisition of an interest in 30% or more of the Ordinary Shares in GPG.

\* In Australia, this includes CHESS Depository Interests

\*\* NZCSD means New Zealand Central Securities Depository

# Company and Registrars' Addresses

## UNITED KINGDOM

First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP  
Tel 020 7484 3370 Facsimile 020 7925 0700  
[www.gpgplc.com](http://www.gpgplc.com)

## AUSTRALIA

c/o BDO East Coast Partnership  
Level 10, 1 Margaret Street, Sydney NSW 2000  
Tel 02 9251 4100 Facsimile 02 9240 9821

## NEW ZEALAND

c/o Computershare Investor Services Limited  
Private Bag 92119, Auckland 1142  
Tel 09 488 8700 Facsimile 09 488 8787

Incorporated and registered in England No. 103548

## LOCATION OF SHARE REGISTERS

The Company's register of members is maintained in the UK with branch registers in Australia and New Zealand. Register enquiries may be addressed direct to the Company's share registrars named below.

| Registrar                                                                        | Telephone and postal enquiries                                                                                               | Inspection of Register                                      |
|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| <b>UK Main Register</b><br>Computershare Investor Services PLC                   | The Pavilions, Bridgwater Road,<br>Bristol BS99 6ZZ<br>Tel 0870 707 1022 Facsimile 0870 703 6143                             | The Pavilions,<br>Bridgwater Road,<br>Bristol BS99 6ZZ      |
| <b>Australian Branch Register</b><br>Computershare Investor Services Pty Limited | GPO Box 3329,<br>Melbourne VIC 3001<br>Freephone 1 800 501 366 (within Australia)<br>Tel 03 9415 4083 Facsimile 03 9473 2500 | Yarra Falls,<br>452 Johnston Street,<br>Abbotsford VIC 3067 |
| <b>New Zealand Branch Register</b><br>Computershare Investor Services Limited    | Private Bag 92119, Auckland 1142<br>Tel 09 488 8777 Facsimile 09 488 8787                                                    | Level 2, 159 Hurstmere Road,<br>Takapuna,<br>Auckland 0622  |

## MANAGING YOUR SHAREHOLDING ONLINE

### UK Registered Members

To manage your shareholding online, please visit  
[www.investorcentre.co.uk](http://www.investorcentre.co.uk)

### Australia and New Zealand Registered Members

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit  
[www.computershare.co.nz/www.investorcentre.com/NZ](http://www.computershare.co.nz/www.investorcentre.com/NZ)

General enquiries can be directed to  
[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Please assist our registrar by quoting your CSN or shareholder number