

# Notice of Annual General Meeting

65

To the holders of Ordinary shares

Notice is hereby given that the ninety second Annual General Meeting of Coats plc will be held at Trinity House, Tower Hill, London EC3N 4DH at 12.00 noon on Wednesday 24 April 2002 for the following purposes:

## Ordinary business

- 1 to receive the accounts for the year ended 31 December 2001 and the report of the Directors and auditors thereon
- 2 to declare the final dividend of 1.5p per Ordinary share for the year ended 31 December 2001
- 3 to re-elect Sir Victor Blank as a Director
- 4 to re-elect Mr M C Flower as a Director
- 5 to re-elect Mr B G F Anderson as a Director
- 6 to re-appoint Deloitte & Touche as auditors of the Company and to authorise the Directors to fix their remuneration

## Special business

- 7 **Special resolution** (Authority for the Company to purchase its own shares)

That the Company is authorised to purchase for cancellation its own fully paid Ordinary shares by way of market purchase upon and subject to the following conditions:

- (i) the maximum number of shares which may be purchased is 100,000,000 Ordinary shares of 20p each;
- (ii) the maximum price at which shares may be purchased is an amount equal to 105% of the average of the middle market quotations derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the shares are contracted to be purchased and the minimum price at which shares may be purchased is 20p per share, in both cases exclusive of expenses; and
- (iii) the authority to purchase conferred by this resolution shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 and in any event no later than 23 October 2003 provided that any contract for the purchase of any Ordinary share as aforesaid which has been concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires.

- 8 **Ordinary resolution** (Authority for Directors to allot relevant securities)

That the Directors are generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the said Act) up to an aggregate nominal value of £30,000,000 (representing approximately 21% of the issued share capital of the Company) provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 23 July 2003, whichever is the sooner, save that the Company may before the expiry of such period make offers or agreements which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired.

- 9 **Special resolution** (Disapplication of pre-emption rights)

That the Directors are empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the Authority conferred on them by Resolution 8 above (as varied from time to time by the Company in General Meeting) as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that (without prejudice to the authority conferred in Resolution 8 above) the power conferred by this Resolution shall be limited:

- (i) to the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be) to the respective numbers of Ordinary shares held by them subject only to such exclusion or other arrangements as the Directors may consider appropriate to deal with fractional entitlements, and in connection therewith to sell, for the benefit of those shareholders who are citizens of or resident in any overseas territory where in the opinion of the Directors it would at the time of the offer be illegal (by a relevant law) or unduly costly or burdensome for the Company to make or for those shareholders to accept an offer of equity securities of the Company, the equity securities to which they would otherwise be entitled, save that proceeds (net of expenses) of £2 or less to any such shareholder may be retained for the benefit of the Company;
- (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities having in the case of relevant shares (as defined for the purposes of Section 89 of the said Act) a nominal amount or in the case of other equity securities giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £7,700,000 (representing approximately 5% of the issued share capital of the Company); and
- (iii) to the allotment of equity securities pursuant to an election by any holders of Ordinary shares to take shares instead of a cash dividend in connection with any share dividend or distribution reinvestment plan implemented by the Directors under Article 138A; and such authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or 23 July 2003 whichever is the sooner, unless renewed or extended prior to or at such meeting except that the Company may before the expiry of any power contained in this Resolution make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

- 10 **Ordinary resolution** (Authority for introduction of approved and unapproved share option plans)

That:

- (i) the rules of the Coats plc 2002 Approved Share Option Plan and the Coats plc 2002 Unapproved Share Option Plan, the principal features of which are summarised in Section 2 to the Appendix to the Notice of Annual General Meeting (copies of which are produced to the Meeting and signed by the Chairman for the purposes of identification) are approved and the Directors are authorised to do all such acts and things as may be necessary or desirable to carry the same into effect including making such amendments as may be necessary to obtain the approval of the Inland Revenue and/or such other approvals as the Directors may consider necessary or desirable; and
- (ii) the Directors are authorised to vote, and be counted in the quorum, on any matter connected with the said plans, notwithstanding that they may be interested in the same (except that no Director may be counted in a quorum or vote in respect of his own participation) and any prohibition on voting by interested Directors contained in the Articles of Association of the Company is relaxed accordingly.

# 66 Notice of Annual General Meeting continued

## 11 Ordinary resolution (Authority for introduction of a performance share plan)

That:

- (i) the rules of the Coats plc Performance Share Plan, the main features of which are summarised in Section 3 to the Appendix to the Notice of Annual General Meeting (a copy of which is produced to the Meeting and signed by the Chairman for the purpose of identification) are approved and the Directors are authorised to do all such acts and things as may be necessary or desirable to carry the same into effect; and
- (ii) the Directors are authorised to vote, and be counted in the quorum, on any matter connected with the said plan, notwithstanding that they may be interested in the same (except that no Director may be counted in a quorum or vote in respect of his own participation) and any prohibition on voting by interested Directors contained in the Articles of Association of the Company is relaxed accordingly.

## 12 Ordinary resolution (Authority for adoption of further plans for the benefit of non-UK Group employees)

That the Directors of the Company be authorised to establish further plans based on any share plan which has previously been approved by shareholders but modified to take account of local tax, exchange control or securities laws in any overseas jurisdiction provided that the shares made available under such further plans are treated as counting towards the limits on individual or overall participation in those previously approved plans.

### Notes

- 1 Only Ordinary shareholders are entitled to attend and vote at the Annual General Meeting and such members will receive a form of proxy with this notice.
- 2 A member entitled to attend and vote may appoint one or more proxies to attend and on a poll to vote instead of him or her. A proxy need not also be a member. A proxy or representative attending on behalf of a corporation is entitled to vote on a show of hands but a member (other than a corporation) present by proxy shall not be entitled to vote on a show of hands.
- 3 To be valid, the proxy forms must arrive at the office of the Registrars not less than 48 hours before the time the meeting is to be held. The appointment of a proxy does not prevent a member who so wishes from attending the meeting and voting in person.
- 4 The Register of Directors' share interests together with copies of any service contracts for periods in excess of one year between each Director and the Company or any of its subsidiary companies and draft rules of the proposed new Approved and Unapproved Share Option Plans and Performance Share Plan (the "Share Plan Rules") are available for inspection at the Registered Office during normal business hours from the date of this Notice until the date of the meeting and at the place of meeting from 15 minutes prior to the meeting until its conclusion. The Share Plan Rules shall also be available at Andersen, 180 Strand, London WC2R 1BL during this period.

By Order of the Board

**Christopher Healy** Company Secretary

5 March 2002

Registered Office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD

Registered in England No: 104998

### Appendix to the Notice of Annual General Meeting Explanatory Notes to the Special Business

- 1 Items 7, 8 and 9 of the Notice of Annual General Meeting contain resolutions which renew existing authorisations for a further year. The Directors believe that such renewal is necessary to be able to take advantage of business opportunities as they arise and recommend you to vote in favour.  
**Resolution 7** This resolution authorises the Company to purchase 100,000,000 of its own shares. No purchases were made pursuant to last year's authority.  
**Resolution 8** An ordinary resolution will be proposed to grant the Directors general authority to allot shares up to an aggregate nominal value of £30 million, representing almost all of the unissued authorised Ordinary share capital of the Company.  
**Resolution 9** The principal effect of this resolution is to give the Directors authority to allot equity securities for cash other than to existing shareholders up to a limited aggregate amount of £7,700,000 representing approximately 5% of the issued share capital.
- 2 Summary of the proposed Coats plc 2002 Approved and Unapproved Share Option Plans (the "Plans")

#### General

The Board (acting where appropriate through the Remuneration Committee) will supervise the operation of the Plans. In particular, certain aspects of the Plans, including who can participate and the amount of any grants, will require the approval of the Remuneration Committee.

#### Eligibility

Selected employees and full time Executive Directors of the Company and its subsidiaries are eligible to participate at the discretion of the Board. Overseas employees will not normally participate in the Approved Plan.

#### Option price

Participants in the Plans will be granted an Option to acquire Ordinary shares in the Company ("Shares"). The price at which Shares may be acquired on the exercise of an Option will be determined when the Option is granted but will not be less than market value or, where Shares are to be subscribed, their nominal value. Market value will normally be the closing middle market quotation from the Daily Official List on the day before grant (or the average over the preceding three days).

#### Grant of Options

Options may be granted under the Plans during the six week periods following:

- In the case of the Approved Plan, the formal approval of the Approved Plan by the Inland Revenue;
- In the case of the Unapproved Plan, the adoption of the Unapproved Plan by the Company;
- The announcement of the Company's results for any period;
- Any changes to the legislation affecting, in the case of the Approved Plan, company share option plans approved by the Inland Revenue; and, in the case of the Unapproved Plan, legislation affecting employee share plans;
- The date an eligible employee commences employment;

and at other times where there are circumstances deemed by the Board to be exceptional.

Options may be granted over both newly issued shares and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

No grants can be made more than ten years after the Plans are approved by shareholders. Options granted under the Plans are not transferable and may only be exercised by the persons to whom they were granted or their personal representative(s).

Options will be granted by deed. No payment is required for the grant of an Option. Benefits under the Plans are not pensionable.

#### **Exercise and lapse of Options**

An Option will normally become exercisable at the end of the relevant performance period subject to the performance conditions being satisfied. The performance periods will generally be three successive years in duration but may extend to four or five years in order to sustain the incentive capacity of options granted to a wide group of international senior management.

Options will normally lapse to the extent they are not capable of exercise five years after grant.

Options will normally lapse if the participant ceases to be employed by the Group. However, if a participant retires (including early retirement with his employer's agreement) or leaves employment through injury, disability, redundancy or because his employing company is transferred outside the Group, he can exercise his Option, subject to meeting the performance condition over this shortened period, for six months from employment ceasing. In the case of retirement, the Board may determine that Approved Options remain exercisable for 42 months from the later of when they were granted and the participant's last approved exercise. In the event of a participant's death, all Options can be exercised in full for a period of twelve months. If a participant leaves under any other circumstance his Options will lapse unless the Board determines otherwise within one month of employment ceasing.

#### **Change of control**

If there is a change of control, reconstruction (amounting to a change of control) or winding up of Coats plc, the performance period will be deemed to end at that time (or at another time selected by the Board, acting fairly and reasonably) and the number of Shares over which an Option may be exercised will be calculated by reference to the extent to which the performance condition has been met over that period. Alternatively, Options may be exchanged for new equivalent options where appropriate.

#### **Performance condition**

At grant the Board must approve performance conditions which must be satisfied before any Option can be exercised.

All Options granted in the first year will be subject to an EPS growth condition measured on a sustained and consistent basis. For Options granted to a participant over Shares with an aggregate market value of up to 100% of salary, the condition will be average EPS growth of at least RPI + 9% after three years. For Option grants in excess of 100% of salary, the condition will be EPS growth of at least RPI + 15% after three years.

If the EPS condition has not been met at the end of the third year then the condition will be remeasured at the end of year four, and if it is still not met, at the end of year five. I.e. for option grants of up to 100% of salary the condition will rise from EPS growth of RPI + 9% after three years, to RPI + 12% after four years and RPI + 15% after five years.

Alternatively, the Board can set performance conditions that must be satisfied before the grant of an Option under the Unapproved Plan, in respect of non-UK based participants, excluding Executive Directors, who are exposed to the international recruitment market. There is no immediate intention to use this provision.

The Board will regularly review the exercise conditions for future Option grants to ensure that they are appropriate for the Company and the prevailing recruitment market. The conditions may be varied in certain circumstances following the grant of an Option so as to achieve their original purpose but not so as to make their achievement any more or less difficult to satisfy.

Shares must be transferred to participants within 28 days of exercise or, if that would involve conducting such transaction in a close period, as soon as practical thereafter.

#### **Individual limit**

Normally no grant will be made under the Plans, and any other market value option plan adopted by the Company, over Shares worth more than 200% of a participant's salary in any financial year. The maximum value of Shares over which Options may be granted in any year shall not exceed 400% of a participant's salary. This maximum is not intended to be used other than in exceptional circumstances. Furthermore, the market value of Options granted to a participant under the Approved Plan cannot exceed £30,000 at any time. In applying these limits no account will be taken of any Shares which have been put under Option to ensure that a participant is not financially disadvantaged if he agrees to satisfy the Group's social security liability in relation to his Option.

#### **Rights attached to the Shares**

All Shares allotted or transferred under the Plans will rank *pari passu* with all other Ordinary shares of the Company for the time being in issue, (save as regards any rights attaching to such Shares by reference to a record date preceding the effective date of exercise). The Company will ensure any new Shares allotted under the Plans are listed.

#### **Variation of capital**

In the event of any rights or capitalisation issue, subdivision, consolidation, reduction or other similar variation of share capital, the Board may make such adjustments as they consider appropriate to the number of Shares under Option and the exercise price of those Options. Any such adjustments to the Approved Plan will require prior approval of the Inland Revenue.

#### **Alterations to the Plans**

The Board cannot alter the provisions of the Plans to the material advantage of the participants without the sanction of the Company in General Meeting unless the alterations are minor to benefit the administration of the Plans, to take account of changes in legislation or to obtain or maintain a favourable taxation, exchange control or regulatory treatment for a Group company, participant or eligible employee.

The Board may establish further schemes based on the terms of these Plans but modified to take into account local tax, exchange control or securities law in overseas territories, provided any shares made available under such further plans count against any limits on individual or overall participation in the Plans.

#### **Plan limits**

The maximum number of new shares that may be issued or issuable under the Plans and any other employee share schemes adopted by the Company cannot exceed 10% of the issued share capital of the Company from time to time in any ten year period.

The maximum number of new shares that may be issued or issuable under the Plans and any other discretionary executive share schemes adopted by the Company cannot exceed 5% of the issued share capital of the Company from time to time in any ten year period.

For the purposes of these limits, Options or other rights to acquire Shares which lapse or have been released do not count. However, Shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share plans adopted by the Company do count towards these limits.

### **3 Summary of the proposed Coats plc Performance Share Plan (the "Plan")**

#### **General**

The Board (acting where appropriate through the Remuneration Committee) will supervise the operation of the Plan. In particular, certain aspects of the Plan, including who can participate and the amount of any Award, will require the approval of the Remuneration Committee.

#### **Eligibility**

Selected employees and full time Executive Directors of the Company and its subsidiaries are eligible to participate at the discretion of the Board.

# 68 Notice of Annual General Meeting continued

## Grant of Awards

Awards may be granted in such form as the Board shall approve, whether as a contingent right to receive shares, an option to acquire shares, a phantom share (an award of cash which relates to the Company's share price) or any other form of award which has the same economic impact. Where Awards are cash based the Board reserves the right to deliver the benefit in the form of shares. Awards to acquire shares will entitle the participant to acquire fully paid Ordinary shares in the Company ("Shares").

Awards may be granted during the six week periods following:

- The adoption of the Plan by the Company;
- The announcement of the Company's results for any period;
- Any changes to the legislation affecting employee share plans;
- The date an eligible employee commences employment;

and at other times where there are circumstances deemed by the Board to be exceptional.

Awards may be made over both newly issued shares and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

No Awards can be made more than ten years after the Plan is approved by shareholders. Awards granted under the Plan are not transferable and may only be exercised by or vest in the persons to whom they were granted or their personal representative(s).

Awards will be granted by deed. No payment is required for the grant of an Award. Benefits under the Plan are not pensionable.

## Exercise and lapse of Awards

An Award will normally become exercisable or vest at the end of the relevant performance period if and to the extent that performance conditions have been satisfied over that period. The performance periods will generally be three successive years or such other period as the Board may determine at the time of grant.

Awards will lapse to the extent not vested or capable of exercise after expiry of the performance period and in any event ten years after grant.

Awards will normally lapse if the participant ceases to be employed by the Group. However, if a participant retires (including early retirement with his employer's agreement) or leaves employment through injury, disability, redundancy or because his employing company is transferred outside the Group, a proportion of his Award will normally vest based on how many months have elapsed since it was granted. The relevant proportion of the Award will vest at the end of the performance period and will remain subject to satisfying the performance condition over this period. In the event of a participant's death, his Award can be exercised or shall vest in full. If a participant leaves under any other circumstances his Award will normally lapse unless the Board determines otherwise within one month of employment ceasing.

## Change of control

If there is a change of control, reconstruction (amounting to a change of control) or winding up of Coats plc, the performance period will be deemed to end at that time (or at another time selected by the Board, acting fairly and reasonably) and the number of Shares over which an Award may be exercised or vest will be calculated by reference to the extent to which the performance condition has been met over that period. Alternatively, Awards may be exchanged for new equivalent awards where appropriate.

## Performance Condition

At grant the Board must approve performance conditions which must be satisfied before any Award can be exercised or vest.

All Awards made in the first year will be subject to demanding performance conditions requiring the Company's EPS over the three year period to grow by a minimum of RPI + 30%. The amount that vests at this level will be 20% of the Award. The amount that vests increases dependent on the rate of growth of EPS above the RPI. For exceptional earnings growth, where the Company's EPS has grown by RPI + 105% over the performance period, the maximum of 150% of the Award will vest.

The following table sets out the vesting schedule on a simplified annual basis for Awards made in 2002.

EPS growth	Percentage of Award that vests
Less than RPI + 10%	0%
RPI + 10%	20%
RPI + 10-15%	20-30% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 15-20%	30-40% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 20-25%	40-60% (additional 4% vests for each 1% increase in average annual real EPS growth)
RPI + 25-30%	60-100% (additional 8% vests for each 1% increase in average annual real EPS growth)
RPI + 30-35%	100-150% (additional 10% vests for each 1% increase in average annual real EPS growth)
Above RPI + 35%	150%

The Board will regularly review the performance conditions for future Awards to ensure that they are appropriate for the Company and the prevailing recruitment market. The conditions may be varied in certain circumstances following the grant of an Award so as to achieve their original purpose but not so as to make their achievement any more or less difficult to satisfy.

Shares must be transferred to participants within 28 days of exercise or vesting or, if that would involve conducting such transaction in a closed period, as soon as practical thereafter.

The Board has the right to make a cash payment in lieu of any share rights that have vested under the Plan.

## Individual limit

In the first year no Award will exceed 100% of a participant's salary. The maximum value of Shares that may be awarded in any year shall not exceed 200% of a participant's salary. This maximum is not intended to be used other than in exceptional circumstances.

The provisions under the Plan relating to rights attached to the Shares, variation of capital, alterations to the Plan and the Plan limits are the same as those set out in Section 2 to the Appendix to the Notice of Annual General Meeting in relation to the Coats plc 2002 Approved and Unapproved Share Option Plans.