

COATS GROUP PLC (the "Company")
TERMS OF REFERENCE FOR THE AUDIT & RISK COMMITTEE
Adopted by the Board on 29 July 2020

1. CONSTITUTION

- 1.1 The Committee has been established by resolution of the Board of Directors of the Company (the 'Board') and is to be known as the Audit & Risk Committee (the 'Committee').

2. MEMBERSHIP

- 2.1 The Board shall appoint the chairman of the Committee (the 'Chairman'). In absence of the Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 2.2 The members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman of the Audit and Risk Committee.
- 2.3 The Committee shall consist of at least three members, all of whom are independent non-executive directors. At least one member shall have recent and relevant financial experience and preferably a professional qualification from one of the professional accounting bodies and the Committee as a whole shall have competence relevant to the sector in which the Company operates in the context of large, global and industrial operations. Where possible one member should also be a member of the Remuneration Committee.
- 2.4 The quorum for Committee meetings shall be two members.

3. ATTENDANCE AT MEETINGS

- 3.1 Only members of the Committee are entitled to attend and vote at a meeting of the Committee. However, with the agreement of the Chairman, other Board members may attend all or part of any meeting as and when appropriate, along with the Group Head of Internal Audit and other members of the finance team. The external auditor will be invited to attend meetings of the Committee on a regular basis.
- 3.2 At least once a year the external auditor and the Group Head of Internal Audit will meet with the Committee, without management present, to discuss any audit-related issues and any other matters they wish to raise.

4. SECRETARY

- 4.1 The Company Secretary or his/her nominee shall act as the Secretary of the Committee (the 'Secretary') and will ensure that the Committee receives information and papers in a timely manner.
- 4.2 The Secretary shall keep a record of the membership, the dates of any changes to the membership of the Committee and any non-audit services provided by the external auditor to enable the Company to make the necessary statement in the annual report on safeguarding the external auditor's objectivity and independence.

5. FREQUENCY OF MEETINGS

The Committee shall meet at least three times a year at the appropriate times in the reporting and audit cycle and as otherwise required. Meetings are called by the Secretary at the request of any of the Committee's members, the Chief Financial Officer of the Company, the external auditors or the Group Head of Internal Audit. Outside the formal meeting programme, the Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Company chairman, Group Chief Executive, Chief Financial Officer, the Group Head of Internal Audit and the external auditor.

6. PROCEEDINGS

Unless varied by these terms of reference, meetings and proceedings of the Committee, including voting arrangements, will be governed by the provisions of the Company's Articles of Association regarding the meetings and proceedings of directors. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be sent to each member of the Committee and any other person attending not later than five working days prior to the date of the meeting and in any event in sufficient time to enable full consideration be given to the matters in the agenda and supporting papers. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interests and minute them accordingly. The Secretary shall circulate the draft minutes of such meetings to all members of the Committee promptly. Once agreed, the minutes shall be circulated by the Secretary to all members of the Board, unless a conflict of interest exists or the Chairman decides it would be inappropriate to do so.

7. AUTHORITY

- 7.1 The Committee is authorised by the Board at the expense of the Company to investigate any matter within its terms of reference. It is authorised to seek any information that it requires from any employee or any director in order to perform its duties and all employees and directors are directed to cooperate with any requests made by the Committee.
- 7.2 The Committee is authorised by the Board to obtain external legal, accounting or other professional advice at the expense of the Company but within any budgetary restraints imposed by the Board.
- 7.3 These terms of reference may be amended from time to time by the Board.

8. DUTIES

The Committee shall have oversight and carry out the duties below for the Company and its major subsidiary undertakings (the 'Group') as a whole, as appropriate:

8.1 Financial reporting

- 8.1.1 To monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any informal reports, such as preliminary statements of annual accounts and analyst presentations, and to review, and report to the Board on, the significant financial reporting issues and judgments which they contain, having regard to matters communicated by the external auditor;
- 8.1.2 To report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company;
- 8.1.3 In relation to 8.1.1, in particular to review and challenge where necessary:
 - i. the application of significant accounting policies and practices, and any changes to them and any significant estimates or judgements;
 - ii. the methods used to account for significant or unusual transactions where different approaches are possible;
 - iii. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - iv. the clarity and completeness of financial reporting disclosures in the Company's financial statements and whether such disclosures are properly set in context;
 - v. the going concern statement;
 - vi. the viability statement;

- v. all material information presented with financial statements, including the strategic report and corporate governance statements relating to the audit and to risk management;
- vi. The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.
- vii Where the Committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the Board.

8.1.4 To review the financial statements of the annual report and accounts and, if explicitly requested to do so by the Board, to advise the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and whether it informs the Board's statement in the Annual Report on matters that are required under the UK Corporate Governance Code.

8.2 Internal controls and risk management systems

8.2.1 keep under review the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems.;

8.2.2 To review and approve the statements to be included in the annual report concerning internal controls, risk management, including the assessment of principal risks and emerging risks, and the viability statement, related to the review of the effectiveness of the Company's risk management and internal control systems;

8.2.3 To report to the Board if it is not satisfied with any key aspect of the Company's risk management systems and controls.

8.3 Whistleblowing, Compliance and Fraud

8.3.1 To review the adequacy and security of the Company's arrangements by which employees of the Company, contractors and external parties may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters and to be satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;

8.3.2 Review the Company's procedures for detecting fraud;

8.3.3 To review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.4 Internal audit

8.4.1 To monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;

8.4.2 To approve the appointment or removal of the Group Head of Internal Audit, whose direct reporting line is to the Chairman of the Committee;

8.4.3 To review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work. To confirm that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure that the function has adequate standing and is free from management or other restrictions and will ensure co-ordination between the internal and external auditors;

8.4.4 To review and assess the annual internal audit plan and to ensure it is aligned to the key risks of the business and to receive regular reports on the work carried out;

- 8.4.5 To review and monitor management's responsiveness to the findings and recommendations of the Company's internal audit function;
- 8.4.6 Ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate. Ensure there is an open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.4.7 Ensure that Head of Internal Auditor has direct access to the Board chairman and to the Committee Chairman, providing independence from the Company's executive team and accountability to the Committee;
- 8.4.8 Carry out an annual assessment of the effectiveness of the group internal audit function and as a part of this assessment:
- i. Meet with the Head of Internal audit without the presence of management to discuss the effectiveness of the function;
 - ii. Review and assess the annual internal audit work plan;
 - iii. Receive a report on the results of the internal auditor's work;
 - iv. Determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the Company;
 - v. Review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 8.4.9 Monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor;
- 8.4.10 Consider whether an independent third party review of processes is appropriate.

8.5 External audit

The Committee shall:

- 8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 8.5.2 To consider when the external audit contract should be put out to tender taking into account the requirements of applicable laws and regulations. If and when the Company puts the external audit contract out to tender, to develop and oversee the external audit tendering process, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 8.5.3 If the Board does not accept the Committee's recommendation on the appointment, reappointment or removal of the external auditor, to include in the annual report, and in any papers recommending appointment or reappointment, a statement from the Committee explaining its recommendation and setting out the reasons why the Board has taken a different position.
- 8.5.4 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.5.5 oversee the relationship with the external auditor. In this context the Committee shall:
- i. approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and

- ii. approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.5.6 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, ethical standards and other professional requirements and the Company's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 8.5.7 obtain confirmation from the Company and the external auditor that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity, taking into account the relevant ethical standards for auditors;
- 8.5.8 agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account ethical standards and legal requirements, and monitor the application of this policy;
- 8.5.9 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements including the guidance on the rotation of audit partner and staff;
- 8.5.10 To approve the choice of, and require the rotation of, the lead audit partner and audit review partner as required by laws and regulations.
- 8.5.11 monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and ethical standards;
- 8.5.12 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 8.5.13 seek to ensure coordination of the external audit with the activities of the internal audit function;
- 8.5.14 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 8.5.15 develop, recommend to the Board and keep under review the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

The policy should include consideration of the following matters:

- i. threats to the independence and objectivity of the external auditor and any safeguards in place;
 - ii. the nature of the non-audit services;
 - iii. whether the external audit firm is the most suitable supplier of the non-audit service;
 - iv. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - v. the criteria governing compensation;
- 8.5.16 To ensure that, if the external auditor provides non-audit services, an explanation is provided for the shareholders in the annual report on how the external auditor's objectivity and independence is safeguarded, setting out the Committee's policy on the provision of non-audit services;

- 8.5.17 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 8.5.18 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, and expertise and experience of the audit team;
- 8.5.19 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- i. a discussion of any major issues which arose during the audit;
 - ii. the auditor's explanation of how the risks to audit quality were addressed;
 - iii. key accounting and audit judgements;
 - iv. the auditor's view of their interactions with senior management; and
 - v. levels of errors identified during the audit and experience of the audit team;
- 8.5.20 review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.5.21 review the management letter and management's response to the auditor's findings and recommendations; and
- 8.5.22 annually review the effectiveness of the audit process, including an assessment of the quality of the audit, whether the agreed audit plan was met or the reasons for any change, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.
- 8.5.23 To explain to shareholders in the Committee section of the annual report and accounts how the Committee assessed the effectiveness of the external auditor process and how it reached its recommendation to the Board on the appointment, reappointment or removal of the external auditor and to include in the explanation supporting information on tendering frequency, the tenure of the incumbent external auditor, plans for audit tendering and any contractual obligations that acted to restrict the Committee's choice of external auditor;

9. REPORTING RESPONSIBILITIES

- 9.1 After a Committee meeting the Committee chairman shall report formally to the Board on all matters within its duties and responsibilities and how it has discharged its responsibilities. This report shall include:
- i. The significant issues that it considered in relation to financial misstatements and how these were addressed;
 - ii. The assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans;
 - iii. Any other issue on which the Board has requested the Committee's opinion.
- 9.2 The Committee terms of reference shall be made available on the Company's website in accordance with the UK Corporate Governance Code.
- 9.3 The Committee will report in the annual report in accordance with the UK Corporate Governance Code and other relevant standards. In compiling its report the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

10. OTHER MATTERS

10.1 The Committee shall:

- i. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required;
- ii. be provided with appropriate and timely training in order to carry out its duties both in the form of an induction programme for new members and on an on-going basis for all members;
- iii. give due consideration to applicable laws, regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Financial Conduct Authority's Listing, Prospectus Rules and Disclosure and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- iv. work and liaise as necessary with all other Board committees, ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
- v. be responsible for the oversight over the relationship between internal and external auditors.

10.2 Ensure that a periodic evaluation of the committee's performance is carried out.

10.3 At least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11. ANNUAL GENERAL MEETING

The Chairman shall be available at the Annual General Meeting to answer questions on the Committee's activities and its responsibilities. In addition the Chairman should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

Approved by the Board of Coats Group plc, July 2020