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Remuneration Update – implementation of policy in 2020

1 May 2020

The 2019 Coats Directors Remuneration Report is subject to a regular 3-year approval vote at the AGM on 20 May 2020.

The new policy was finalised following a consultation process with shareholders and several corporate governance advisory organisations undertaken in December 2019 and January 2020.

As you would expect, our main focus as a Board over recent weeks, has been on managing the business challenges arising from the COVID-19 pandemic. I want to update you on the actions taken in relation to the implementation of the current remuneration policy in 2020 (that are not reflected in the 2019 annual report) so that shareholders can have some recent context to the two AGM resolutions to approve the 2019 annual report on remuneration and the new remuneration policy.

These decisions were taken after the publication of the 2019 Annual Report and so are not reflected in the forward looking statement for 2020. In summary I would like to draw your attention to the following;

- the Board including Non-Executive and Executive Directors have agreed to a 20% reduction in fees and base salaries for the period 1 April to 30 June 2020. The period of this reduction remains under review;
- there will be no increase in Chairman and Non-Executive Director fees nor base salaries for Executive Directors in 2020. The next regular annual review will be in July 2021;
- the proposed increase in the annual bonus maximum opportunity for the CEO from 125% to 150% will not be implemented in 2020 and will be delayed until 2021. The maximum of 150% (increased originally from 100%) was permitted by the policy vote approved at the AGM in May 2017 but the Committee had decided to exercise restraint by implementing the increase in stages in 2018 and 2019 with the final increase being implemented in 2020.
- The Company granted regular awards under the Long Term Incentive Plan in 2020 for the 3 year performance period 2020 to 2022 and Deferred Bonus awards for the 2019 bonus outcome on 6 March 2020. The share price used to calculate the number of shares awarded was 58.9p versus 81.5p from the previous award on 4 March 2019 (decline of 27% from 2019). At the time of writing this letter the share price is currently 45p (a further decline of 23% since March 2020). The Company is aware of concerns of shareholders that executives should not “benefit” from exceptional falls in the share price. The Committee will consider the impact of share price movement at the time the performance conditions for the LTIP awards are assessed to ensure that the value of any vested award reflects the performance of the company and that there are no excessive “windfall” gains that are attributed to share price volatility per se. I would point out for additional context that a substantial proportion of prior annual bonuses were awarded in deferred shares and that both Executive Directors had already exceeded their Minimum Shareholding targets of 200%.

As noted above on 1 April 2020 the company announced that the CFO, Simon Boddie intended to retire in March 2021. Any remuneration offer to a successful candidate will be structured within the framework of the Remuneration Policy assuming it is approved on 20 May 2020.

In closing I would like to thank you for your continuing support and I trust that you will feel able to support the remuneration related proposals at the AGM on 20 May 2020. If you need any further information or have any questions please do not hesitate to contact me. You may find it easier to initially contact me via Brendan Fahey (Brendan.Fahey@coats.com).

David Gosnell
Chair - Remuneration Committee