

UK CORPORATE GOVERNANCE CODE REPORT

Compliance with the 2016 UK Corporate Governance Code (the Code)

- A full version of the UK Corporate Governance Code can be found on the Financial Reporting Council's website: www.frc.org.uk

A1 The role of the Board

The Board's agenda is set by the Chairman and deals with those matters specifically reserved to the Board including matters relating to the Group's strategic plan, financial matters and corporate governance policies. Matters delegated to the Group Chief Executive and executive management include managing the Group's business in line with the strategic plan and approved risk appetite, and responsibility for the operation of the internal control framework.

Each year the Board agrees a schedule of regular business, financial and operational matters to be addressed by the Board and its Committees during the course of the year and this ensures that all areas for which the Board has responsibility are reviewed.

The Board's standard agenda covers standing items, such as Health & Safety, a revolving review of principal risks, pensions and financial matters. When relevant, M&A and specific strategic and financial projects were considered.

Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. The Directors were located in the UK, USA, New Zealand and Hong Kong and this geographical diversity meant that it was not always possible for every Director to attend all Board and Committee meetings in person. In the event that Directors were unable to attend a meeting, they were given time to comment on papers to be considered at the meeting and discussions were held in advance with the Chairman so that their contribution could be included in the wider Board discussion.

In addition to the formal Board meetings, the Chairman seeks to ensure that he meets on a periodic basis with the Non-Executive Directors without the Executive Directors present. These meetings support the constructive contribution of the Non-Executive Directors, and allow the Chairman to ensure that all views are taken into account and aired, as appropriate, at full Board meetings. All Directors are aware that, should they have concerns about the way the Board operates, those concerns should be raised and will be recorded within the minutes. No such concerns were raised during the reporting period.

A2 Division of responsibilities

The separate roles of the Chairman and Group Chief Executive are clearly defined and documented in writing and approved by the Board. Mike Clasper, the Chairman, is responsible for leading the Board while Rajiv Sharma as Group Chief Executive is responsible for the day-to-day management of the Company within the strategy set by the Board.

A3 The Chairman

The Chairman is responsible for leading the Board and ensuring its effectiveness. In conjunction with the Group Company Secretary, he sets the agendas for meetings, manages the meetings, administers the meeting timetable and encourages an open and constructive dialogue during the meetings.

A4 Non-Executive Directors

The Board is strengthened by an open and constructive dialogue in the boardroom and the Chairman actively invites the views of all Board members. The Chairman is available to the Non-Executive Directors and, over the course of the year, the Non-Executive Directors have met in the absence of the Executive Directors and also in the absence of the Chairman, when appropriate.

B1 The composition of the Board

The Nomination Committee is responsible for reviewing the composition of the Board and making recommendations for appointments to the Board. The Committee considers the balance of skills, experience, gender, diversity and knowledge needed in order to enhance the Board and support the Company in the execution of its strategy and promote the success of the Company. Details of the work undertaken by the Nomination Committee are set out on pages 48 and 49.

The Board aims to maintain a balance of independence, tenure, skills, experience and diversity.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

B1 The composition of the Board (continued)

As at the date of this report, the Board comprises the Chairman, eight Non-Executive Directors (all of whom are considered to be independent) and two Executive Directors. The Board is therefore in compliance with the requirement of the Code that, excluding the Chairman, at least half the Board should comprise independent Non-Executive Directors.

B2 Appointments to the Board

The Nomination Committee is responsible for leading the process of appointing new Directors to the Board. The Committee is committed to ensuring that all appointments are made on merit above all else with due regard for the benefits of all types of diversity, including gender.

B3 Commitment

The Non-Executive Directors' letters of appointment set out the time commitment expected from them. This time commitment is reviewed regularly in the light of the strategic and operational issues arising through the year. External interests, which may impact existing time commitments, must be agreed with the Chairman and the Board. The significant commitments of each of the Directors are included in the biographies on pages 39 to 41.

B4 Development

The Board places great value on the inductions that are offered to new Non-Executive Directors and the ongoing training opportunities made available to all Board members.

On joining the Board, all Directors are offered a thorough and tailored induction programme, the key elements of which comprise meetings with Executive Directors and senior management across the Group, site visits, specific training relating to current issues affecting the Group, meetings with advisers, provision of training material and other documents. Details of Echo Lu's induction programme can be found in the Nomination Committee Report on page 49.

The Chairman is responsible for reviewing the training needs of each Director, and for ensuring that the Directors continually update their skills and knowledge of the Company.

All Directors are advised of changes in relevant legislation and regulations and changing risks, with the assistance of the Company's advisers where appropriate. The Directors are also provided with regular corporate governance updates to highlight changes in governance regulations and best practice.

B5 Information and support

Procedures are in place to ensure that Board members receive accurate and timely information via a secure electronic portal. All Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Chief Legal & Risk Officer and Group Company Secretary who is responsible for providing advice on corporate governance matters to the Board.

In conjunction with the Group Company Secretary, the Chairman ensures that all Directors receive papers and other information relevant to matters to be discussed at Board meetings at least one week before the meeting. As Directors were, during the reporting period, situated in the UK, New Zealand, Hong Kong and the US, suitable communication and reporting systems have been established which enable them to monitor, on a timely basis, the Group's activities.

Senior management and professional advisers are invited to attend Board and Committee meetings. Where appropriate, they contribute to discussions and advise members of the Board or its Committees on particular matters. The involvement of the senior management at Board and Committee discussions strengthens the relationship between the Board and its operating business and helps to provide the Board with a greater understanding of operations and strategy.

B6 Evaluation

Following the externally facilitated review in 2016, the Board conducted an internal review of the effectiveness of the Board and its Committees – details of which are set out on page 45.

B7 Re-election

All Directors were subject to shareholder re-election at the 2017 Annual General Meeting (AGM). All Directors will be subject to shareholder election or re-election at the 2018 AGM, apart from Ruth Anderson who will retire from the Board.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

C1 Financial and business reporting

The Strategic report can be located on pages 1 to 36, and this sets out the performance of the Company, the business model, strategy, and the risks and uncertainties relating to the Company's future prospects.

C2 Risk management and internal control

The Board sets the Company's risk appetite and annually reviews the effectiveness of the Company's risk management and internal control systems. A description of the principal risks facing the Company is set out on pages 21 to 26. The Annual Report also sets out how the Directors have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate (the 'Viability Statement'). The activities of the Audit and Risk Committee, which assist the Board with its responsibilities in relation to financial reporting, audit matters and the Group's internal control and risk management framework and processes, are set out on pages 50 to 54.

C3 Audit and Risk Committee and auditors

The Audit and Risk Committee comprises four independent Non-Executive Directors, two of whom are considered to have recent and relevant financial experience, and the Board delegates a number of responsibilities to the Audit and Risk Committee including oversight of the Group's financial reporting processes, internal control and risk management framework, and the work undertaken by the external and internal auditors. The Committee members as a whole are considered to have relevant sector competence in which Coats operates. The Audit and Risk Committee Chairman provides regular updates to the Board on key matters regular updates to the Board on key matters discussed by the Committee.

D1 The level and components of remuneration

The Company aims to reward employees fairly and the Remuneration Policy is designed to promote the long term success of the Company whilst aligning both the interests of the Directors and shareholders.

D2 Procedure

The Remuneration Committee is responsible for setting the remuneration for all Executive Directors. Details of the composition and the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 55 to 67.

E1 Dialogue with shareholders

The Company's relations with shareholders is referred to on page 47.

Board members take an active role in engaging with shareholders, both in private meetings and in wider forums such as the AGM. The Chairman and the Senior Independent Director aim to meet some of the major institutional investors at least once per year and are available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board. The Board receives regular updates on investor communication activity, changes to the shareholder register and analysis of share price performance, and the Chairman ensures that any views expressed by shareholders are communicated to the Board at the earliest opportunity.

The Board considers transparency and openness to be a key feature of its stated strategy and endeavours to ensure that both shareholders and the market remain appropriately informed and that regular updates are released to the market.

E2 Constructive use of General Meetings

The Board values the Annual General Meeting as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet the Board following the formal business of the meeting. This interaction helps the Board to develop an understanding of the views of the Company's shareholders. At its 2017 AGM, the Chairman provided an additional report to shareholders.

This year's AGM will be held on 16 May 2018 in London.

► Copies of these presentations and reports and the results of proxy voting at the 2017 AGM were released to the markets and can be found at www.coats.com/shareholders