

COATS GROUP PLC (the "Company")

TERMS OF REFERENCE FOR THE REMUNERATION COMMITTEE

1. CONSTITUTION

The Committee has been established by resolution of the board of directors of the Company (the '**Board**') and is to be known as the Remuneration Committee.

2. MEMBERSHIP

2.1 The Board shall appoint the Chairman of the Remuneration Committee (the '**Chairman**'), who shall not be the chairman of the Board. In the absence of the Chairman or any appointed deputy, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the Board.

2.2 The members of the Remuneration Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman.

2.3 The Remuneration Committee shall consist of at least three members, all of whom are independent non-executive directors. The chairman of the Board may also serve on the Remuneration Committee as an additional member if he or she was considered independent on appointment as chairman.

2.4 If executive directors or senior management are involved in advising or supporting the Remuneration Committee, that role should be clearly separated from their role within the business and care should be taken to recognise and avoid conflicts of interest.

3. QUORUM

A quorum necessary for the transaction of business shall be two members.

4. ATTENDANCE AT MEETINGS

4.1 No one other than the Chairman, and members, of the Remuneration Committee is entitled to attend or vote at a meeting of the Remuneration Committee.

4.2 However, other individuals may attend with the permission of the Chairman for all or part of any meeting, as and when appropriate and necessary.

5. SECRETARY

5.1 The Company Secretary or his or her nominee shall act as the secretary of the Remuneration Committee (the '**Secretary**').

5.2 The Secretary shall ensure that the Remuneration Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

5.3 The Secretary shall keep a record of:

5.3.1 the membership, and the dates of any changes to the membership, of the Remuneration Committee; and

5.3.2 any person who, or firm which, provides advice or services to the Remuneration Committee or materially assists the Remuneration Committee on matters relating to directors' remuneration and the nature of any other services provided by that person to the Company during the year.

6. **FREQUENCY OF MEETINGS**

Meetings shall normally be held at such times as the Remuneration Committee deems appropriate and in any event shall be held not less than twice a year.

7. **PROCEEDINGS**

7.1 Unless varied by these terms of reference, meetings and proceedings of the Remuneration Committee will be governed by the provisions of the Company's Articles of Association regulating the meetings and proceedings of directors.

7.2 Meetings of the Remuneration Committee shall be called by the Secretary at the request of the Chairman or any member thereof.

7.3 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 Remuneration Committee, any other person required to attend and all other non-executive directors not later than five working days prior to the date of the meeting.

7.4 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Secretary shall record the proceedings and resolutions of all meetings of the Remuneration Committee, including the names of those present and in attendance. The Secretary shall circulate the draft minutes of such meetings to all members of the Remuneration Committee promptly. Once agreed, the minutes shall be circulated by the Secretary to all members of the Board, unless a conflict of interest exists/the Remuneration Committee decides it would be inappropriate to do so.

7.5 The Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

8. **AUTHORITY**

8.1 The Remuneration 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 it requires from any employee in order to perform its duties and all employees are directed to cooperate with any requests made by the Remuneration Committee.

8.2 The Remuneration Committee is authorised by the Board to obtain external legal or other professional advice at the expense of the Company but within any budgetary restraints imposed by the Board on any matters within its terms of reference.

8.3 These terms of reference may be amended from time to time by the Board.

9. **DUTIES**

9.1 The Remuneration Committee shall be responsible for all elements of the remuneration of the executive directors and the chairman of the Company, including pension rights and compensation payments. The Remuneration Committee should also recommend and monitor the level and structure of remuneration for the senior management of the group. The senior management for this purpose shall include all direct reports of the Group Chief Executive.

9.2 Any decisions made by the Remuneration Committee relating to the operation or application of the Company's directors' remuneration policy (for example in relation to the exercise of discretion) must be made within the scope and terms of the current policy, as approved by ordinary resolution of the shareholders of the Company.

9.3 Subject to paragraph 9.2, the duties of the Remuneration Committee shall be:

- 9.3.1 to recommend and monitor the policy for the remuneration (including benefits, pension arrangements and termination payments) and terms of employment applicable to the executive directors of the Company, the chairman of the Board and the senior management of the group;
- 9.3.2 in determining such policy for remuneration, to take into account all factors which it deems necessary (including relevant legal and regulatory requirements, the provisions of the UK Corporate Governance Code (the '**Governance Code**'), institutional shareholder guidelines in relation to directors' remuneration and associated guidance) the objective of such policy being to promote the success of the Company without paying more than is necessary, having regard to the views of shareholders and other stakeholders;
- 9.3.3 to ensure no director or senior executive shall be involved in any decisions as to his or her own remuneration;
- 9.3.4 to determine the Company's policy on the duration of contracts with executive directors, notice periods and termination payments under executive directors' contracts, with a view to ensuring that any termination payments are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised;
- 9.3.5 within the terms of the current directors' remuneration policy, to determine and review, if deemed necessary, the total individual remuneration package of each executive director of the Company, the chairman of the Board and the senior management of the Company, for each year including, where appropriate, bonuses, incentive payments, share options, other share awards and pension arrangements;
- 9.3.6 when setting remuneration policy for directors, review and have regard to pay and employment conditions across the company or group, especially when determining annual salary increases;
- 9.3.7 having regard to the provisions of the Governance Code, to advise on and determine all formulae and targets for performance-related schemes operated by the Company in relation to the executive directors and senior managers, the methods for assessing whether performance conditions are met and the eligibility of executive directors for annual bonuses and to review and approve, and put to the Board for approval as necessary, all aspects of any share option scheme or share incentive scheme (including vesting levels), or other long term incentive plan operated by or to be established by the Company, including but not limited to:
- (A) the design and terms of the Scheme;
 - (B) the selection of those eligible directors and employees of the Company and its subsidiary companies to whom options or awards should be granted,
 - (C) the timing of any grant of options or awards,
 - (D) the numbers of shares over which options or awards are to be granted,
 - (E) the exercise price at which options are to be granted or price at which awards are to be made,
 - (F) the imposition of any objective condition which must be complied with before any option may be exercised or award granted;

- (G) determining each year the total awards to be made (if any) and the total amount of awards (if any) to each director, senior manager or any other participant; and
 - (H) the ability to withhold or reclaim sums or awards to address poor performance,
- and when appropriate or required by the Listing Rules, to request the Board to seek shareholder approval of any new share option scheme, share award scheme or other long-term incentive scheme;
- 9.3.8 to identify to the Board, for its consideration and final determination, any performance measures, performance targets and formulae which are considered commercially sensitive for the purposes of disclosure in the directors' remuneration report;
 - 9.3.9 to liaise with the Nomination Committee to ensure that the remuneration of any new executive director of the Company is in accordance with the Company's directors' remuneration policy and to agree the terms of appointment and remuneration of such proposed new director in co-ordination with the Nomination Committee;
 - 9.3.10 to liaise with the Board and make recommendations in relation to any payments to be made to a departing director;
 - 9.3.11 to obtain reliable, up-to-date information about remuneration in other companies;
 - 9.3.12 to be aware of and oversee any major changes in employee remuneration policy or employee benefit structures throughout the Company or group;
 - 9.3.13 to appoint remuneration consultants and to commission or purchase any reports, surveys or information to the extent it reasonably deems necessary, including establishing the selection criteria, selecting, appointing and setting the terms of reference for any such remuneration consultants but within any budgetary restraints imposed by the Board;
 - 9.3.14 to approve the section in the Company's Annual Report containing the directors' remuneration report and the sections relating to the activities of the Remuneration Committee and to liaise with the Board in relation to the same (as described in paragraph 11 below);
 - 9.3.15 to agree the policy for authorising claims for expenses of all directors appointed to the Board;
 - 9.3.16 to ensure that it is in a position to justify all of its actions and proposed courses of action;
 - 9.3.17 in exercising its powers, to take into account the duties of directors under Chapter 2 of Part 10 of the Companies Act 2006 (the "**2006 Act**") including, in particular, section 172 of the 2006 Act, which requires a director to act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
 - (A) the likely consequences of any decision in the long term,
 - (B) the interests of the Company's employees,
 - (C) the need to foster the Company's business relationships with suppliers, customers and others,

- (D) the impact of the Company's operations on the community and the environment,
 - (E) the desirability of the Company maintaining a reputation for high standards of business conduct, and
 - (F) the need to act fairly as between members of the Company;
- 9.3.18 to promptly provide the Board with such information as may be necessary or desirable in the opinion of the Board to enable the Board to monitor its conduct in order that each member of the Board may fulfil his duties and responsibilities as a director;
- 9.3.19 to have regard, in the performance of the duties set out in this paragraph, to any applicable laws and regulations including, to the Governance Code, the Listing Rules, the Disclosure and Transparency Rules, any published guidelines or recommendations from shareholders and representative bodies regarding the remuneration of directors of listed companies including the formation and operation of long term incentive schemes and share award schemes, which the Remuneration Committee considers relevant or appropriate;
- 9.3.20 at least once a year to review its own performance and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval, in accordance with the Governance Code;
- 9.3.21 to ensure that these terms of reference are made available on the Company's website in accordance with the Governance Code;
- 9.3.22 to make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and
- 9.3.23 to ensure that the Company maintains a dialogue with shareholders about the remuneration of executive directors and senior management and the work of the Remuneration Committee.

10. **EXCLUSIONS**

- 10.1 The terms of reference of the Remuneration Committee do not encompass decisions to appoint, employ or dismiss executives or directors.
- 10.2 The remuneration of non-executive directors (except for the Chairman) shall be a matter for the executive directors and the chairman of the Board (subject to the Articles of Association of the Company).

11. **REPORTING TO SHAREHOLDERS**

- 11.1 The Remuneration Committee shall ensure that procedures are in place to comply with the requirements for the disclosure of information relating to the directors' remuneration, as set out in the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Listing Rules and the UK Corporate Governance Code
- 11.2 The Remuneration Committee shall approve the directors' remuneration report to be included in the Company's Annual Report each year, including:
- 11.2.1 the annual statement from the Chairman of the Remuneration Committee;
 - 11.2.2 the annual report on remuneration setting out payments during the financial year; and

- 11.2.3 when required, the directors' remuneration policy in relation to future payments to the Directors and former directors.
- 11.3 The Annual Report shall include a description of the work of the Remuneration Committee as required by the Governance Code, which shall be approved by the Remuneration Committee. The Remuneration Committee shall ensure that procedures are in place to comply with the following requirements.
- (A) the directors' remuneration report (with the exception of the directors' remuneration policy) is put to shareholders by ordinary resolution for approval by an advisory vote at each Annual General Meeting in accordance with the requirements of the Companies Act 2006;
 - (B) the directors' remuneration policy to shareholders by ordinary resolution, for approval by a binding vote at an Annual General Meeting or other company meeting when required, or when considered necessary or appropriate (for example in order to make a change to the policy) in accordance with the requirements of the Companies Act 2006;
 - (C) whenever a director leaves office, a statement is published on the Company's website as soon as reasonably practicable, in accordance with the requirements of section 430(2B) of the Companies Act 2006;
- 11.4 The Annual Report shall include where remuneration consultants are used, details of the consultants and a statement of any other connection they have to the Company.
- 11.5 The Remuneration Committee shall ensure that it or the Board maintains contact as required with shareholders about the remuneration of executive directors and senior management and the work of the Remuneration Committee.

12. **OTHER MATTERS**

12.1 The Remuneration Committee shall:

- 12.1.1 have access to sufficient resources and annual training in order to carry out its duties, including access to the Company Secretary for assistance as required, and shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 12.1.2 give due consideration to applicable laws, regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Financial Conduct Authority, Listing and Disclosure and Transparency Rules and any other applicable rules, as appropriate; and
- 12.1.3 work and liaise as necessary with all other Board committees.

13. **ANNUAL GENERAL MEETING**

The Chairman of the Remuneration Committee shall be available at the Annual General Meeting to answer questions arising from the directors' remuneration report and generally on remuneration principles and practice and the activities of the Remuneration Committee.