

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, and before such appointment, the appointee should have served on a remuneration committee for at least 12 months. 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:
- i. the membership, and the dates of any changes to the membership, of the Remuneration Committee; and
 - ii. 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.
- 7.6 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be available for board discussion when necessary.

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 The Remuneration Committee is authorised to delegate certain matters to the share plan administration committee (the “SPA”) as set out in the terms of reference for the SPA.
- 8.4 These terms of reference may be amended from time to time by the Board.

9. **ROLE**

- 9.1 The role of the Committee is to assist the Board to fulfil its responsibility to shareholders to ensure that:
- i. remuneration policy and practices of the Company, major subsidiary undertakings and the Group as a whole, are designed to support strategy and promote long-term sustainable success, reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements; and
 - ii. executive remuneration is aligned to the Company’s purpose and values and linked to delivery of the Company’s long-term strategy.
 - iii. Subject to Paragraph 10.2, in particular, the Committee shall consider:
 - a) remuneration policies, including base pay, long-term and short-term incentives, post-employment shareholding requirements and use of the Committee’s discretion;
 - b) remuneration practice and its cost to the Company;
 - c) recruitment, service contracts and severance policies;
 - d) the engagement and independence of external remuneration advisers;
 - e) a review of workforce remuneration and related policies and the alignment of incentives and rewards with the Group’s culture and values; and
 - f) Any long-term incentive plan arrangement with a performance target that has a performance period in excess of one-year for any member of the workforce.

10. **DUTIES**

- 10.1 The Remuneration Committee shall be responsible for all elements of the remuneration of the executive directors and the chairman of the Board, 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.
- 10.2 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.
- 10.3 Subject to paragraph 10.2, the duties of the Remuneration Committee shall be:

- i. 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, including the Company Secretary;
- ii. 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**'), including the requirements for clarity, simplicity, risk mitigation, predictability, proportionality and
- iii. alignment to culture, institutional shareholder guidelines in relation to directors' remuneration and associated guidance) the objective of such policy being to promote the long-term sustainable success of the Company without paying more than is necessary, having regard to the views of shareholders and other stakeholders;
- iv. Review the ongoing appropriateness and relevance of the remuneration policy.
- v. to consider any shareholding requirements, including vesting and holding periods of at least five years for executive directors, the company secretary and senior executives, and a formal policy for post-employment shareholding requirements for executive directors that encompass both unvested and vested shares;
- vi. Design remuneration policies and practices to support strategy and promote long-term sustainable success, with executive remuneration aligned to company purpose and values, clearly linked to the successful delivery of the company's long-term strategy, and that enable the use of discretion to override formulaic outcomes and to recover and/or withhold sums or share awards under appropriate specified circumstances;
- vii. when determining remuneration schemes and the remuneration policy, to consider the use of discretion by the Committee to override formulaic outcomes;
- viii. to ensure no director or senior executive shall be involved in any decisions as to his or her own remuneration;
- ix. 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;
- x. 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. The choice of financial, non-financial and strategic measures is important, as is the exercise of independent judgement and discretion when determining remuneration awards, taking account of company and individual performance, and wider circumstances.;

- xi. 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;
- xii. having regard to the provisions of the Governance Code, to advise on , and put to the Board for approval as necessary the following:
 - a. the design of, and determine the targets for, the operation of all long-term incentive schemes, including all schemes involving the award of shares or the grant of options. For any such schemes or plans, determine each year whether the awards will be made, and if so, approve the levels of participation in such schemes or plans by those individuals;
 - b) monitor and assess any performance conditions applicable to any long-term incentive awards granted under any schemes or plans adopted by the Company. Ensure that the performance conditions are fully explained, aligned to the Company purpose and values, and clearly linked to the successful delivery of the Company's long-term strategy and enhancement of shareholder value;
 - c) consider whether the executive directors, the company secretary and senior executives should be eligible for annual bonuses;
 - d) recommend and determine annual targets and key performance indicators for, any bonus scheme operated by the Company and assess performance against targets and key performance indicators, by the Company, individual executive directors, the company secretary and senior executives;
 - e) exercise independent judgement and discretion when authorising outcomes under all incentive arrangements, taking account of company and individual performance, and wider circumstances;
 - f) design and invoke agreed safeguards, for example, clawback or withholding the payment of any sum or share award, to protect against rewards for failure through appropriate risk management of any incentive arrangements to ensure that any performance-related payments reflect actual achievements; and
 - g) ensure that all incentive arrangements are aligned to the Company's risk policies and systems, its purpose and values, support the strategy and promote long-term sustainable success.

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;

- x. 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;
 - xi. Work and liaise as necessary with other board committees, ensuring the interaction between committees and with the board is reviewed regularly;
- xii. to liaise with the Board and make recommendations in relation to any payments to be made to a departing director;

- xiii. to obtain reliable, up-to-date information about remuneration in other companies;
- xiv. to review workforce remuneration and related policies and the alignment of incentives and rewards with culture and take this into account when setting the policy for executive director remuneration and oversee any major changes in remuneration and employee benefits structures throughout the Group;
 - xv. 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. The committee should avoid designing pay structures based solely on benchmarking to the market or on the advice of remuneration consultants;
- xvi. 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);
- xvii. to agree the policy for authorising claims for expenses of all directors appointed to the Board;
- xviii. to ensure that it is in a position to justify all of its actions and proposed courses of action;
- xix. 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 impact of the Company's operations on the community and the environment;
 - f) the desirability of the Company maintaining a reputation for high standards of business conduct; and
 - g) the need to act fairly as between members of the Company.
- xx. 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;
- xxi. 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;

- xxii. 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;
- xxiii. to ensure that these terms of reference are made available on the Company's website in accordance with the Governance Code;
- xxiv. to make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and
- xxv. 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.

11. EXCLUSIONS

- 11.1 The terms of reference of the Remuneration Committee do not encompass decisions to appoint, employ or dismiss executives or directors.
- 11.2 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).

12. REPORTING TO SHAREHOLDERS

- 12.1 The Remuneration Committee shall ensure that provisions regarding disclosure of information as set out in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 and the Code are fulfilled, and that a report on the directors' remuneration policy and practices is included in the company's annual report and put to shareholders for approval at the AGM as necessary..
- 12.2 The Remuneration Committee shall approve the directors' remuneration report to be included in the Company's Annual Report each year, including:
 - i. the annual statement from the Chairman of the Remuneration Committee;
 - ii. the annual report on remuneration setting out payments during the financial year; and
 - iii. when required, the directors' remuneration policy in relation to future payments to the Directors and former directors.
- 12.3 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.
 - i. 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;
- ii. 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;
 - iii. 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;
 - iv. 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.

13. OTHER MATTERS

13.1 The Remuneration Committee shall:

- i. 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;
- ii. 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
- iii. work and liaise as necessary with all other Board committees.

14. ENGAGEMENT WITH SHAREHOLDERS

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. In addition, the Chairman of the Remuneration Committee should seek engagement with shareholders on significant matters related to the Remuneration Committee's areas of responsibility.

Approved by the Board of Coats Group plc, May 2020