

Audit and Risk Committee report



Sarah Highfield

(Chair since May 2024)

Member since 2023

Steve Murray

Member since 2022

Srinivas Phatak

Member since  
1 September 2024

Jakob Sigurdsson

Member since 2020

Dear Shareholder,

I am pleased to present my first report as the Chair of the Audit and Risk Committee. This report, for the year ended 31 December 2024, sets out how the Committee has discharged the duties delegated to it by the Board, including how it ensured compliance with the relevant regulations and guidance, such as the 2018 UK Corporate Governance Code (2018 Code), as well as setting out the key topics and findings during the year.

A key focus of the Committee in 2024 has been the externally facilitated review of the Group Internal Audit function (GIA). This has ensured that our approach remains appropriately positioned in relation to the market and our peers. Through this review, the Committee also considered the scope and focus of GIA activities and reviewed the short and medium-term audit plans. These plans were developed in conjunction with management to ensure that they were suitably aligned to strategy and business operations, as well as our principal risks and uncertainties. The review also identified the appropriate resourcing model for GIA. You can read further details about the outcomes of the process later in this report.

Following the publication of the 2024 UK Corporate Governance Code (2024 Code) in January 2024, the Committee has dedicated significant time to considering the Company's preparations for the forthcoming requirements, particularly those relating to the need for the Board to identify, monitor and review all material risks and controls in order to make a future declaration as to their effectiveness.

The Committee has continued to monitor the various other developments in the regulatory environment to ensure that the Company is well positioned for incoming requirements.

I am delighted that the Group has now published external limited assurance on its ESG-related data as set out in this Annual Report. This is the culmination of a number of years of work by management and the Committee, and we are confident that our stakeholders will welcome this development in our reporting. During 2024, we have continued to increase the level of governance through on-site reviews of ESG data in selected locations undertaken by GIA.

The Committee reviewed the basis for reporting ESG-related data (available on our website [www.coats.com](http://www.coats.com)) as well as continuing to monitor the progress of external assurance work throughout the year.

Preparatory work took place for the upcoming EU Corporate Sustainability Reporting Directive (CSRD), which was expected to impact Coats from January 2025, and in relation to which we have elected to adopt the reporting requirements at non-EU parent group level. This will bring the entire Coats Group into scope. Following the EU Omnibus update in February 2025, we are waiting for the final conclusions from the EU on when our first reporting year will be.

Our Sustainability function has been working with key internal and external stakeholders on the completion of our Double Materiality Assessment (DMA) which will determine the European Sustainability Reporting Standards under which we will make future disclosures. The DMA will undergo limited assurance once we are clearer on the finalised EU mandates for reporting.

Principal objectives of the Audit and Risk Committee

- To monitor the integrity of the Group's financial reporting processes.
- To ensure the independence and effectiveness of internal and external audit functions.
- To ensure that risks are carefully identified and assessed, and that sound systems of risk management and internal control are in place.

Key responsibilities

- Oversee the accounting principles, policies and practices adopted in the Group's accounts.
- Oversee the external financial reporting and associated announcements.
- Provide advice to the Board on whether the Annual Report and Accounts is fair, balanced and understandable and provides the necessary information to assess the Company's performance, business model and strategy.
- Ensure the adequacy and effectiveness of the internal control environment.
- Monitor the Group's risk management processes and performance.
- Review the resourcing, plans, reports and effectiveness of GIA.
- Oversee the appointment of, and monitoring the performance of, the internal audit partner.
- Conduct a competitive tender process for external audit when required and oversee the appointment, independence, effectiveness and remuneration of the Group's external auditor, including the policy on the supply of non-audit services.
- Ensure the establishment and oversight of fraud prevention arrangements and consider reports under the whistleblowing policy in conjunction with the Board.
- Monitor the Audit and Assurance Policy.
- Review the Group's compliance with the Code.
- Monitor forthcoming regulatory changes.



Audit and Risk Committee report cont.

An independent internal review was also conducted on our TCFD models for determining financial impact of climate related risks and opportunities.

The Committee continued to receive deep dive presentations from each of the Finance Directors of the Apparel, Footwear and Performance Materials divisions relating to internal controls and risk management processes. These help the Committee to consider how effectively risk management is embedded within the business operations and how it is monitored on a day-to-day basis. There has also been a significant focus on the communication of the Group's Supplier Code, including monitoring the outcomes of, and follow-up on actions from, audits of key suppliers.

One of the outcomes of the review of GIA was the creation of a new role in our Supply function to further strengthen our risk management processes in this area. This new role is responsible for driving further consistencies around ethical behaviour across our supply chain, monitoring and escalating any potential breaches in relation to the Group's Supplier Code in accordance with agreed processes and timelines, and incorporating industry best practices, where appropriate, in conjunction with an outsourced verification partner.

The Committee also monitored the progress in relation to, and the accounting treatment of, the Coats UK Pension Scheme buy-in transaction that was agreed in September 2024. This transaction was the final and most significant step in Coats' full insurance of its UK pension obligations.

During the course of 2024, the Financial Reporting Council (FRC) considered certain aspects of EY's audit of our 2023 consolidated financial statements. You can read more about this process in the 'Assessment of audit process' on page 82.

Following nine years' service on the Board and this Committee, Nicholas Bull stepped down at the conclusion of the 2024 AGM at which time I succeeded him as Chair of this Committee. I was delighted to welcome Srinivas Phatak as a Non-Executive Director and member of this Committee in September 2024. Srinivas brings significant financial expertise to this Committee, continuing to enhance the mix of skills and experience amongst Committee members.

Sarah Highfield,  
**Chair, Audit and Risk Committee**  
5 March 2025

Highlights of 2024

- Completion and implementation of review of GIA.
- Preparations for regulatory changes including further evolution of internal controls environment.
- Publication of external limited assurance of ESG-related data.

Areas of focus for 2025

- Continue preparations for 2024 Code changes including documenting controls and testing procedures.
- Continue preparations for CSRD disclosures.
- Continue focus on Cyber and IT risk and governance, as well as ESG.
- Support transition of Group Chief Financial Officer.

Membership and meetings

The members of the Committee are independent Non-Executive Directors. During the year, the Committee met five times and held one additional call, and all members of the Committee attended

the maximum number of meetings possible. Further details of individual Directors' attendance can be found on page 75. The Committee met privately with the external auditor and with GIA. To enable robust and timely discussion, the Group Chief Financial Officer, the Chief Legal & Risk Officer and Group Company Secretary, the Group Financial Controller, the Senior Financial Reporting Manager, the Head of GIA, divisional CEOs, divisional Finance Directors and the external auditor attended parts of Committee meetings by invitation. The Group Chair and Group CEO also attended meetings when appropriate. The Deputy Company Secretary acts as Secretary to the Committee. The Chair of the Committee holds regular meetings with both internal and external auditors, and each has an opportunity to discuss matters with the Committee without management being present.

'Financial expert', recent and relevant financial experience

The Board has confirmed that it is satisfied that the Committee possesses an appropriate level of independence and depth of financial and commercial, including sectoral, expertise.

For the purposes of the 2018 Code, in respect of the financial year ended 31 December 2024, Nicholas Bull, Sarah Highfield and Srinivas Phatak were the members of the Committee determined by the Board as having recent and relevant financial experience. You can read more about the skills and experience of the members of the Committee on pages 68 to 70.

Financial reporting, going concern and viability statement

During the year, the Committee reviewed the interim results announcement, including the interim financial statements, the Annual Report and associated preliminary results announcement,

focussing on key areas of financial judgement and estimates made by management to ensure it was satisfied with the outcome, critical accounting policies, disclosures (including those relating to contingent liabilities, climate change and principal risks) and provisioning, as well as any changes required in these areas or policies.

Particular focus areas during the year were the accounting treatment of the UK pension buy-in transaction, strategic projects, impairment risk (in particular in the Americas due to trading softness in Performance Materials), and the continued integration of the Footwear business.

The Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 57. The Committee reviewed the process undertaken to ensure that the model used was consistent with the approved business plan and that the relevant scenario and sensitivity testing aligned clearly with the principal risks of the Group. The Committee challenged the underlying assumptions used and reviewed the results of the detailed work performed. The Committee was satisfied that the analysis supporting the viability statement had been prepared on an appropriate basis.

The Committee also reviewed the going concern statement, set out on page 107 and confirmed its satisfaction with the methodology including the appropriateness of sensitivity testing.

The Committee continues to focus on both the basis of preparation of the going concern and viability analysis as well as the external disclosures, to ensure they are prepared in line with current FRC guidance.

Audit and Risk Committee report cont.

Fair, balanced and understandable

As part of its review of the Company's Annual Report and associated disclosures, the Committee has considered whether this report is 'fair, balanced and understandable' and provides the information necessary for shareholders and other stakeholders to assess the Company's position, performance, business model and strategy, as required by the 2018 Code.

The Committee used the established assurance processes to ensure its input was appropriately timed, including providing feedback on the planning process, and considering the reviews taken by external advisors. The Committee received a full draft of the Annual Report and provided feedback on it, highlighting the areas that would benefit from further clarity or balance, and this feedback was appropriately incorporated. In this respect the Committee focussed on ensuring consistency and completeness in non-financial reporting, including ESG and TCFD reporting, principal risks and uncertainties and reviewing the use of alternative performance measures and their appropriateness in aiding users of our financial statements to understand better our performance year-on-year.

On this basis, the Committee recommended to the Board that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

Significant issues relating to the financial statements

The Committee considered the following issues relating to the financial statements during the year. These include the matters relating to risks disclosed in the external auditor's report:

Issue	Review and conclusion
Exceptional and acquisition-related items	In 2024, exceptional and acquisition-related items of \$69.8 million have been recorded in operating profit; the disclosures in note 4 to the financial statements provide further details. The Committee assessed management's judgements, took into account the views of the external auditor and concluded that the accounting treatment was appropriate given the one-off nature of the events.
Pension matters – valuation of obligations and buy-in accounting	At 31 December 2024 the Group's Pension deficit calculated under IAS19 was \$42.4 million (including \$38.3 million loan due to the company from the UK scheme). The UK surplus is significantly reduced following the buy-in transaction that completed during the year, and which in due course resulted in an actuarial loss of \$224.9 million in the statement of other comprehensive income. The Committee reviewed the underlying assumptions, including those relating to the UK scheme buy-in transaction that was agreed with PIC in September 2024 to insure the remaining 80% of uninsured pension liabilities, which were also agreed with Coats' external advisors and auditors. Note 10 to the financial statements sets out these assumptions and, also provides further details on the UK scheme buy-in transaction. The Committee is satisfied that the overall Group Pension deficit on the balance sheet has been appropriately recognised.
US legacy environment provision	The Group has recognised a provision of \$11.2 million in respect of remediation and legal/professional costs for the Lower Passaic River. The Committee considered management's position on the accounting and disclosure implications surrounding this environmental case, taking into account advice received from external counsel Sive Paget & Riesel P.C. Following the delivery of the US Environmental Protection Agency's Record of Decision in March 2016, the Committee has continued to review whether subsequent events, including those impacting other parties considered to be responsible for the most significant contamination in the river, have triggered the requirement to remeasure the level of remediation provisioning previously established. The Committee is satisfied that there is no requirement to remeasure the remediation provision at 31 December 2024 and that the disclosures provided in note 28 to the financial statements are appropriate.
Taxation	The Group operates in numerous jurisdictions around the world, with different regulations applying in different territories. This complexity, together with intra-Group cross-border transactions, give rise to inherent risks including the risk of challenge by national tax authorities. In addition to reviewing the Group's adjusted effective tax rate, which remained at 29% in the current year, the Committee also considered the Group's uncertain tax provisions and deferred tax assets, which amount in total to \$26.0 million and \$13.6 million respectively. The Committee is satisfied with the approach and disclosures adopted by management as reflected in the financial statements in note 9 to the financial statements.

The Committee also received regular updates on provisions made for litigation and tax matters and the Committee considered the appropriateness of the methodology applied.

Audit and Risk Committee report cont.

Internal control and risk management

The Board is responsible for the Group’s risk management framework and for defining its risk appetite. During 2024, the Committee continued to 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, and the effectiveness of the Group’s risk management system, through regular updates from management. This included a review of the key findings presented by the external and internal auditors having agreed the scope, mandate and review schedule in advance. The principal risks and uncertainties facing the Company are addressed in the Strategic Report and in the table on pages 50 to 56 in this Annual Report.

The Committee continued to conduct deep dives into the financial control and risk framework of each division. The relevant divisional Finance Director provided: an overview of their part of the business; insights into the structure of their finance team, including metrics relating to diversity and tenure, and a talent review. There was also an analysis of the division’s approach to embedding and monitoring internal controls and risk management. These were accompanied by a summary of the assurance processes currently in place in the division. The divisional Finance Directors also reported on the implementation of previously outlined plans relating to the further development of the internal controls environment and opportunities for further automation. There was also an update regarding future plans.

The Committee undertook its annual review of ESG reporting and disclosures, including consideration of the TCFD disclosures.

This was in addition to the various updates provided to allow the correct oversight of the journey to external limited assurance of ESG-related data in this Annual Report.

A key focus has been the preparation for the requirements of the 2024 Code and the Committee has received updates at each of its meetings in 2024 to allow appropriate oversight of the approach and progress in this area. The Committee has provided input on the scope, timing and planned activities to ensure it will be appropriately positioned to make the required effectiveness declarations in due course. This has included working with external consultants to ensure that we are responding to the 2024 Code requirements appropriately, and in line with industry practice.

Whilst leveraging existing risk frameworks, management has performed wide stakeholder consultation to further analyse and identify material risks for the business, and has a detailed roadmap in place to deliver the required declarations in line with the timings of the 2024 Code requirements. The Committee discussed instances where there was opportunity for enhanced controls during the year with updates being provided when required.

In particular, during 2024 the Committee conducted a further deep dive into supplier payments and there were periodic updates on Group Supplier Code compliance and on sanctions documentation and training. There were also reviews of cyber security tools and Data Protection processes, as well as procure to pay processes. Reviews of business areas are presented in line with the GIA plan, and these are appropriately scheduled to align with business priorities to ensure the timely identification of any internal control compliance-related issues. Remediation plans continue to be closely monitored on an ongoing basis.

Fundamental components of the Company’s internal control and risk management framework include:

- management structure supported by clear approval limits and delegated authorities;
- appropriately drafted and communicated policies, procedures, and guidance to support business operations;
- a thorough and co-ordinated annual planning process and strategy review, combined with comprehensive financial forecasting, reporting, and budgeting;
- embedded tools and technology such as SAP and Concur;
- a well-established sign off system in relation to financial reporting and other business matters;
- appropriate post-acquisition integration activities to ensure adherence to Group standards;
- GIA activities and investigations; and
- an externally operated whistleblowing helpline and robust process to allow anonymous reporting and suitable investigations.

In addition to the divisional risk and control deep-dives, a Group-wide assessment of internal controls over financial reporting was presented, which included analytical reviews of balance sheets conducted in the business, deep dives into key financial risks and judgements and a review of the timeliness of previous GIA follow-up actions.

The annual review of the effectiveness of the Company’s risk management and internal control systems covering all material controls was conducted, including operational, compliance and fraud-related controls. Following the robust assurance process, the Committee was satisfied that these systems operate effectively in all material respects with no significant weaknesses identified and others remediated appropriately.

The Committee reviews the minutes of all Group Risk Management Committee meetings and discusses any relevant matters that have arisen with management.

Internal audit

As mentioned earlier in this report, the Committee has devoted significant time to reviewing the strategy of GIA, including agreeing a three year audit plan based on five identified risk domains that align to the Group’s principal risks and uncertainties. The Committee, in conjunction with an external facilitator and management, considered resourcing and determined it was appropriate to move to a hybrid model. After a thorough tender process, in which all of the members of the Committee participated, BDO was appointed as the co-source partner.

A new Head of GIA was also appointed, with members of the Committee participating in the recruitment process. The Committee believes that these changes will appropriately align GIA with the current and evolving needs of the business.



## Audit and Risk Committee report cont.

The proposed GIA audit plan is presented at the December meeting of the Committee to ensure this is agreed in advance and it is then reviewed at each Committee meeting. Updates are provided on audit coverage and any recommended changes to the schedule of work.

The Committee reviews key findings from GIA reports, receives detailed reports from management where appropriate, and monitors the rate at which actions agreed with management are implemented. GIA presents its annual audit opinion at the February meeting of the Committee. The Head of GIA continues to present to the Committee a semi-annual review of in-country operational risks which are appropriately aligned against the Group's principal risks, which includes a summary of any new risks that have arisen in the period with agreement on appropriate actions and interventions. GIA grades the severity of any findings in their reporting to the Committee, with significant control findings being defined as a material deficiency in the design or implementation of a control. This might include a risk of material misstatement of financial information where controls in operations are largely deficient or where there is a pervasive violation of policies and procedures. No significant control findings were identified during the period.

GIA findings and report ratings and supporting criteria have been revised in the year to be clearer on the level of risks identified so as to support the business in appropriately prioritising actions in response, and to better align to the risk framework. The revised ratings and criteria were agreed by the Committee. The Committee considers the findings of the investigations and will provide a final view on the rating to be assigned to the investigation and communicated to the business.

In 2024, GIA focused on supporting Coats in the achievement of its stated purpose 'to connect talent, textiles and technology to make a better and more sustainable world' by bringing a systematic, disciplined approach to support and promote effective governance, risk management and control processes. To achieve its purpose, GIA has positioned itself as follows:

- Trusted advisor, adding value and being solution driven as a business partner
- Risk-based, focusing on the greatest risks and bringing key insights
- Adopter of technology, including using data analytics and implementing a web-based tool for reporting and action tracking

During the year, GIA activity has been aligned to the Group principal risks and uncertainties, and the plan kept under review and aligned throughout the year. Work at unit level has been prioritised on a risk basis, focussed on our key markets. The majority of reviews were conducted onsite and were aligned to the Key Control Framework controls and test activities. A "guest auditor" from the business resourcing model was implemented to provide independent peer review and development opportunities.

GIA has strived to make its ways of working more transparent and facilitated more "live" feedback of potential issues, enabling faster resolution and remediation from the business. A more robust and disciplined approach to planning and delivery has been implemented, supporting a more effective auditing approach and reducing the disruption to the business.

Engagement of BDO as a co-source partner to GIA has brought further capabilities to the team and the business, most notably in Digital and Technology and sustainability, as well as the ability for GIA to bring wider insights to the business.

GIA presented the outcomes of its reviews of the Group's cyber security tools and data protection governance to the Committee. There were also appropriate updates on items that had arisen as key themes in previous years including HR controls compliance in markets and Group Supplier Code compliance.

The Committee has continued to monitor and review the Company's Audit and Assurance Policy, which is available on the Company's website ([www.coats.com](http://www.coats.com)), to ensure that this keeps pace with internal and external developments, noting the changes that had occurred in the associated regulatory environment in particular as result of the release of the updated Corporate Governance Code in January 2024. The Committee anticipates that this policy statement will continue to evolve and provide further opportunities for engagement.

### External audit

#### Independence

The Committee is responsible for reviewing the independence and objectivity of the Company's external auditor, Ernst & Young LLP, agreeing the terms of engagement with them and the scope of their audit. Ernst & Young LLP has a policy of partner rotation, which complies with regulatory standards, and, in addition, has a structure of peer reviews for its engagements, which are aimed at ensuring that its independence is maintained. Maintaining an independent relationship with the Company's external auditor is a critical part of assessing the effectiveness of the audit process. The Committee annually reviews the policy on non-audit fees to ensure it complies with latest FRC Ethical Standards.

The Committee also reviewed the level of audit and non-audit fees paid to EY. The key principles of the policy on non-audit services are:

- The auditor is prohibited from providing any services that are not included in the list of permitted non-audit services. Permitted services include audit related services such as reviews of interim financial information or any other review of accounts required by law to be provided by the auditor.
- Any service that is included on the list of permitted non-audit services, if in excess of \$150,000, requires the approval of the Committee.

During 2024, the external auditor provided non-audit services primarily in relation to the Group's interim results and ESG assurance. The external auditor has confirmed to the Committee that they did not provide any prohibited services and that they have not undertaken any work that could lead to their objectivity and independence being compromised.

The non-audit fees in relation to the services supplied by the external auditor can be found in note 5 of the financial statements. Non-audit fees presented as a percentage of total audit fees is 13%.

The lead partner is rotated every five years. Anup Sodhi was appointed as the lead audit engagement partner in 2023.

The Group is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

### Audit tender

The Company conducted a competitive tender process for the Group's external auditor during 2022. Ernst & Young LLP was re-appointed as the Company's auditor for the year ending 31 December 2024 at the 2024 Annual General Meeting of the Company. No members of the Committee have any connection with the current auditors.



Audit and Risk Committee report cont.

Assessment of audit process

The scope of the external audit is formally documented by the auditor. They discuss the draft proposal with management before it is referred to the Committee which reviews its adequacy and holds further discussions with management and the auditor before final approval.

During the year under review, the Audit Quality Review team of the FRC considered certain aspects of EY’s audit of the Company’s 2023 consolidated financial statements. Having received a full copy of the report, the Committee was pleased to note that no key findings arose from the review, with only two areas identified for limited improvement. These areas have been discussed with EY and the Committee is satisfied that they were addressed appropriately.

In respect of the year under review, the Committee conducted an assessment of the performance and effectiveness of the external auditor. This assessment was undertaken by way of a questionnaire-based internal review which was completed by regular attendees to the Committee and those Coats colleagues globally who interact most frequently with the external auditor. Feedback was also provided by Committee members. The items pertaining to the review of the external auditor, as listed in the FRC’s ‘Audit Committee and the External Audit: Minimum Standard’ and the 2018 Code, were included in the review. The questionnaire covered topics such as the robustness of the audit, and the quality of delivery, reporting and service as well as covering areas such as consideration of the auditor’s culture and mindset including free form questions to allow consideration of any other points that respondents wished to raise. The Committee appropriately assessed the auditor’s view of the risks to audit quality, performance against the audit plan and also considered the FRC’s annual

report on the auditor. The summary of the results of the questionnaire has been reviewed by the Committee and appropriate feedback has been shared with the external auditor.

























Assessment of the effectiveness of the Committee

The Committee’s effectiveness in respect of the year ended 31 December 2024 was evaluated by way of a questionnaire-based internal review. Respondents included Committee members, regular attendees and the external auditor. The Committee considered the findings of the process in relation to both the Committee and GIA at its December meeting, as well as considering whether the feedback identified in the previous year’s assessment had been adequately addressed.

The 2024 evaluation indicated that the Committee was working effectively and identified opportunities for the 2025 Committee work plan, which have been appropriately included.

Signed on behalf of the Audit and Risk Committee by:

Sarah Highfield,  
Chair, Audit and Risk Committee  
5 March 2025

Areas of focus in 2024		Key stakeholders
Corporate reporting	– Half and full year external reporting	 SHAREHOLDERS
	– Interim and preliminary results announcements	
	– Annual Report and consolidated financial statements	
Internal controls	– Completion and implementation of review of the GIA function	 EMPLOYEES  SHAREHOLDERS
	– GIA updates	
	– Semi-annual review of internal financial controls	
Risk management	– Monitoring agreed actions status	 CUSTOMERS  EMPLOYEES  ENVIRONMENT  SHAREHOLDERS  SUPPLIERS
	– Litigation, cyber tools, suppliers, PTP processes and tax risk reviews	
	– Bi-annual risk review including environmental compliance	
External audit	– Horizon scanning for changes to regulatory environment for audit	 CUSTOMERS  EMPLOYEES  SHAREHOLDERS  SUPPLIERS
	– Report on external audit at half and full year	
	– Insights and observations on reporting review	
	– Auditor independence and non-audit work reviews	 CUSTOMERS  EMPLOYEES  SHAREHOLDERS  SUPPLIERS
	– Review of management representation letters	
	– Review of fees of external auditor	
	– Review of the effectiveness of the external auditor	 CUSTOMERS  EMPLOYEES  SHAREHOLDERS  SUPPLIERS
	– Review of updates to regulatory reform to ensure appropriate internal preparation	
	– Sanctions update including review of Company’s ways of working to ensure compliance	
	– Monitoring of refresh of Group’s Supplier Code, including internal and external training and compliance updates	 CUSTOMERS  EMPLOYEES  SHAREHOLDERS  SUPPLIERS
	– Review of Supplier payment terms	
	– Review of management representation letters	