Audit and Risk Committee report

AUDIT AND RISK COMMITTEE REPORT

Sarah Highfield
Audit Committee Chair

Committee membership

Member	Meeting attendance
Sarah Highfield, Chair (Chair since May 2024) Member since 2023	6/6
Steve Murray Member since 2022	6/6
Srinivas Phatak Member since 2024	5/6*
Jakob Sigurdsson Member since 2020	6/6

*See page 54 for further details on attendance.

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 Group's external financial reporting and associated announcements.
- Provide advice to the Board on whether the Annual Report and Accounts are fair, balanced and understandable and provide 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 monitor 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.
- Review the Group's compliance with the Code.
- Monitor forthcoming regulatory changes.

Dear Shareholder,

I am pleased to present the Audit and Risk Committee report for the year ended 31 December 2025.

This report outlines how the Committee has discharged its responsibilities, including monitoring and reviewing the integrity of the Group's financial information and external reporting, and providing assurance to the Board that the Group's internal controls and risk management processes were appropriate and subject to regular review.

During the year, the Committee continued to consider the effectiveness of the Group Internal Audit function (GIA), undertaking reviews of its work plan (to ensure this remained effectively aligned to the changing needs of the business) and its findings. It also continued to oversee the independence and work of the external auditor.

The Committee considers that the Group has complied with the provisions of the FRC's 'Audit Committee and the External Audit: Minimum Standard' (Minimum Standard).

Key areas of focus throughout the year included: the ongoing preparations for regulatory change, notably in relation to the UK Corporate Governance Code 2024 (Code) and the Economic Crime and Corporate Transparency Act; the plans for the integration of Group controls into OrthoLite; enhanced bi-annual balance sheet review processes for all business units; and the succession of the Group CFO. The Group's cyber security risk management processes were also kept under review by the Committee.

An external Board and Committee performance review was undertaken during the year (see page 59) which included recommendations for some further enhancements but concluded overall that the Committee continued to perform effectively.

Sarah Highfield,
Chair, Audit and Risk Committee

4 March 2026

"GIA reviews at unit level were prioritised on a risk basis, focussed on key markets, and were appropriately tailored to the particular circumstances, and the Committee continued its oversight of preparations for Provision 29 of the 2024 UK Corporate Governance Code."

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Membership and Meetings

The members of the Committee are all independent non-executive directors. The Board has confirmed that it is satisfied that the members of the Committee collectively have a broad range of financial and sector expertise that enables them to provide oversight of both financial and risk matters, and to advise the Board accordingly.

For the purposes of the Code, in respect of the financial year ended 31 December 2025, 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 52 to 53.

The Committee met privately with the external auditor and with GIA. To enable robust and timely discussion, the Group CFO, the Chief Legal & Risk Officer and Group Company Secretary, the Group Financial Controller, the Senior Financial Reporting Manager, the Head of GIA, 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.

The Committee's structure and operations are governed by its terms of reference, which are reviewed and approved annually by the Board. These were last approved in February 2026.

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 the associated preliminary results announcement, focussing on key areas of financial judgement and estimates made by management to ensure it was satisfied with the outcome. The Committee also reviewed critical accounting policies, disclosures (including those relating to contingent liabilities, climate change and principal and emerging risks) and provisioning, reviewing any changes to policies required in these areas.

Focus areas during the year were: the acquisition accounting and integration plans for OrthoLite; reviews of the Group's cyber security risk management processes, and enhanced bi-annual balance sheet review processes for all business units.

The Committee considered the Group's longer-term viability statement, set out on page 47. 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 and emerging 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 longer-term viability statement had been prepared on an appropriate basis. The Committee also reviewed the going concern statement, set out on page 101, and reviewed management forecasts for the Group's future cash flow performance, challenging the assumptions on which those forecasts are based. Following a robust assessment of the methodology, the Committee concluded that adoption of the going concern principle was appropriate for both the half year and full year results. The Committee also reviewed and approved the going concern disclosures that are included in the financial statements. The Committee made the relevant recommendations in relation to these statements to the Board.

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

Fair, Balanced and Understandable

As part of its review of the Company's Annual Report and associated disclosures, the Committee has considered whether the Annual Report report is 'fair, balanced and understandable' as required by the Code.

The Committee received assurance from the verification processes carried out on the content of the Annual Report that the reporting therein was consistent and that there were appropriate links between key messages and relevant sections of the Annual Report.

Taking the above into account, together with the views expressed by EY, the Committee recommended, and in turn the Board confirmed, that the 2025 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position, performance, business model and strategy.

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'.

"Focus areas during the year were: the acquisition accounting and integration plans for OrthoLite, reviews of the Group's cyber security risk management processes, and enhanced bi-annual balance sheet review processes for all business units"

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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	Exceptional and acquisition-related items of $51.6m in 2025 have been recorded in profit before taxation; 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.
Acquisition accounting – purchase price allocation	Following the acquisition of OrthoLite, the Group carried out an exercise to allocate the purchase price to the identifiable assets acquired and liabilities assumed at fair value. The exercise resulted in the identification of provisional goodwill and intangible assets of $811.3m; the disclosure in note 31 provides further details. The Committee assessed the approach and judgements taken by management, whilst also taking into account the views of the external auditor, and concluded the provisional fair values included in the financial statements were appropriate.
Exit of Americas Yarns business	The full exit of the Americas Yarns business was announced in April 2025. The Committee reviewed management's judgements on the accounting and reporting implications on the 2025 results, including the loss from discontinued operations of $15.5m, and the presentation of results as discontinued operations. The Committee concluded that it was satisfied with the accounting treatment and disclosures made in the Annual Report.
US legacy environment provision	The Group has recognised a provision of $10.1m 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 as at 31 December 2025 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, gives 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 $58.3m (2024: $26.0m) and $17.9m (2024: $13.6m) respectively. The increase in uncertain tax provisions in the year is primarily due to $24.9m provisional assessment of uncertain tax liabilities acquired with OrthoLite. The Committee is satisfied with the approach and disclosures adopted by management as reflected in note 9 to the financial statements.
Carrying value of goodwill, acquired intangible assets and tangible fixed assets	The Committee reviewed and challenged management's impairment testing of goodwill, acquired intangible assets and tangible fixed assets for the Group's cash generating units. The recoverable amount has been determined based on value in use and fair value less costs of disposal calculations which rely on a number of key assumptions as described in notes 13 and 14. The Committee considered the key assumptions and methodologies used in the calculations, as well as the disclosures including the sensitivity to key assumptions. The Committee concluded that it was satisfied with the results of the impairment reviews and the disclosures made in the Annual Report.

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 CONTINUED

Internal Audit

The Committee annually reviews and approves the GIA Audit Charter, which defines GIA's independence, objectivity and scope of internal activities, the latter of which is determined by an annual risk-based plan. In line with the GIA Charter, the Committee and management ensure that GIA has unrestricted access to the Group's records, physical properties, and personnel to the extent necessary to carry out its activities, and that it remains free from inappropriate management influence or any other restrictions that could compromise its ability to perform its work objectively and effectively.

The proposed GIA audit plan is presented for approval annually and is then reviewed at each Committee meeting. Updates are provided on audit coverage as well as any recommended changes to the schedule of work.

Further to the work undertaken in 2024, the Committee has continued to ensure that GIA's resourcing and remit is appropriately aligned with the current and evolving needs of the Group during 2025 and that GIA remains an effective business partner. GIA reviews at unit level were prioritised on a risk basis, focussed on key markets, and were appropriately tailored to the particular circumstances with supervisory reviews being issued at times to provide timely guidance.

The majority of GIA reviews were conducted on-site, and all were aligned to the 'Key Control Framework' controls and test activities. The 'guest auditor' from the business resourcing model was continued in 2025, providing independent peer review and development opportunities.

The Committee reviewed the key findings and ratings from the 24 GIA reviews undertaken during 2025. It received detailed responses from management where appropriate and monitored the rate at which actions agreed with management were implemented. Enhanced processes for management monitoring of the execution of remediation plans were implemented during 2025. GIA presented its annual audit opinion at the February meeting of the Committee.

The Head of GIA presented a semi-annual review of in-country operational risks to the Committee, which considered matters relating to the Group's principal risks and any new risks that arose in the period, with agreement on appropriate actions and interventions.

BDO acts as a co-source partner to GIA, providing additional skills and expertise to supplement reviews as required as well as bringing its wider insights. BDO has joined GIA at Committee meetings during 2025 to present its findings.

The Committee reviewed the effectiveness of GIA at its December meeting and concluded that it was highly performing and acknowledged the positive evolution of the function in recent years. The Committee was satisfied that the quality, experience and expertise of GIA is appropriate for the business. The enhancements made in meeting materials had been welcomed and further refinements would be implemented in 2026.

Internal Control and Risk Management

The Board retains overall responsibility for overseeing risk and ensuring the effective operation of a robust risk management and internal control system. The Committee is responsible for reviewing the effectiveness of risk management and internal control systems. The day-to-day operation of these systems, encompassing financial, operational, and compliance controls, has been delegated to management and risk owners.

GIA grades the severity of all findings based on the prioritisation of the necessary action to manage the risk(s) arising in its reporting to the Committee, with the most significant finding being "catastrophic" risk to the business meaning urgent action is required to mitigate the significant or material risk. No findings were rated catastrophic during the period.

Provision 29 of the Code

During 2025, in preparation for the implementation of Provision 29 of the Code, there was a comprehensive review of the Group's material controls. This work involved identification of the Group's catastrophic and material reporting risks, confirmation of the controls that mitigate these risks and assessment of how these controls operate across the Group. It also included evaluation of current and target assurance levels, the development of action plans to address any gaps identified, and the conducting of effectiveness testing to validate control design and to identify any required remediation.

The Committee has monitored the results of the material controls processes, evaluated the evolving control and risk management environment, and considered the adequacy of assurance activities and suggested enhancements to these. Group Finance has partnered with PwC during this process, allowing access to additional expertise and insights.

Cyber Security and Digital & Technology risk management

The Committee received regular updates on the enhancements being made in relation to Cyber Security and Digital & Technology risk management. GIA, supported by relevant specialist experts from BDO, conducted robust reviews with management, and reported these to the Committee, to comprehensively assess the current status of the Group's cyber risks and mitigation plans, as well as agreeing enhancements. The Committee met with the newly appointed Chief Information Officer and agreed priority areas for the recently appointed Chief Information Security Officer. This will continue to be a focus area in 2026.

Other areas of Committee focus

Reviews of back office transactional services, indirect procurement processes, supplier payment terms and an update on the supplier audit programme were also considered by the Committee.

The Committee undertook its annual review of ESG reporting and disclosures, including consideration of the TCFD disclosures, and oversaw the external limited assurance processes of ESG-related data in this Annual Report.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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

Following these assurance processes, the Committee was satisfied that the system of risk management and internal controls operate effectively in all material respects with no significant weaknesses identified and others remediated appropriately.

External Auditor

Ernst & Young LLP (EY) is the Group's external auditor and is engaged to conduct a statutory audit of, and express an opinion on, the Company's and the Group's financial statements. A competitive tender to select the auditor was last carried out in 2022. Shareholders confirmed the reappointment of EY at the Company's 2025 Annual General Meeting.

EY presented its proposed audit plan, as reviewed by management, to the Committee for discussion. The audit scope and approach were appropriate in light of the Group's structure and strategy. The audit was accordingly conducted in line with this plan.

EY attends each Committee meeting to present its findings and also meets with the Committee and the Committee Chair without management being present. EY can raise any matter of concern to the Committee Chair at any time without going through management. These regular discussions were useful to the Committee, but no matters of concern emerged.

Independence

The Committee is responsible for reviewing the independence and objectivity of EY and agreeing their terms of engagement and the scope of their audit.

EY 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 its policy on non-audit fees to ensure it complies with latest FRC Ethical Standards. 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.

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

- a decentralised risk management framework, clear organisational responsibilities, robust governance structures and comprehensive financial and compliance processes;
- appropriately drafted and communicated policies, procedures, and guidance to support business operations;
- a thorough and coordinated 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.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

- During 2025, the external auditor provided non-audit services primarily in relation to the Group's 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 ESG assurance work constitutes permissible non-audit service, authorised by those charged with governance, relating to sustainability reporting in accordance with ISAE 3000 (Revised).
- The non-audit fees in relation to the services supplied by the external auditor can be found in note 5 to the financial statements. Non-audit fees presented as a percentage of total audit fees is 8%.
- The lead audit engagement partner is rotated every five years. Anup Sodhi was appointed as the lead audit engagement partner in 2023.

The Committee also reviewed the level of audit and non-audit fees paid to EY.

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.

Assessment of Audit Process

The Committee assesses the performance and effectiveness of the external auditor on an annual basis. In 2025, this assessment was undertaken by way of a questionnaire-based internal review which was completed by regular attendees of Committee meetings 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 Minimum Standard and the 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 and performance against the audit plan, and also considered the FRC's annual report on the auditor. The summary of the results of the questionnaire was reviewed and discussed by the Committee and appropriate feedback was shared with the external auditor.

Areas for Focus in 2026

In 2026, in addition to the recurring items within the Committee's remit, the Committee will continue to oversee compliance with Provision 29 of the Code and to maintain and further enhance its focus on cyber risk and governance.

Signed on behalf of the Audit and Risk Committee by:

Sarah Highfield,
Chair, Audit and Risk Committee

4 March 2026

Key areas of focus in 2025

Corporate reporting

Key stakeholders:

- Half and full year external reporting
- Interim and preliminary results announcements
- Annual Report and consolidated financial statements
- Review of tax and statutory filing status
- Reporting and external limited assurance of ESG data

Risk management

Key stakeholders:

- Litigation, cyber tools, suppliers and tax risk reviews
- Bi-annual risk review including environmental compliance
- Horizon scanning for changes to regulatory environment for audit
- Review of Supplier payment terms and supplier audit programmes
- Regular review of Digital and Technology and Cyber Security risk management

Internal controls

Key stakeholders:

- GIA updates
- Semi-annual review of internal financial controls
- Monitoring agreed actions status
- Review and refinement of Key Controls Framework and assurance processes
- Review of updates to regulatory reform to ensure appropriate internal preparation

External audit

Key stakeholders:

- Report on external audit at full year
- Insights and observations on reporting review
- Auditor independence and non-audit work reviews
- Review of management representation letters
- Review of fees of external auditor
- Review of the effectiveness of the external auditor