

## Section 172 statement

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the Company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision making (S172 Factors). The Board believes that considering and balancing the needs and priorities of our stakeholders, when making key business decisions is not only the right thing to do but is central to our ability to drive sustainable value creation over the longer term.

On pages 46 to 48 we outline the ways that the Board has engaged with our six groups of stakeholders, including what was learned and what we will do in 2024 as a result of this engagement. These interactions provide the Board with insights to allow them to make informed decisions that consider and address any differing needs and priorities, while ensuring the appropriate focus on strategic and cultural outcomes.

### Board information and monitoring – the correct inputs

- Board papers identify the key stakeholder groups for matters under discussion. The Board is able to probe, challenge and debate the various stakeholder-related factors, to ensure any differing views and outcomes are addressed. Assurance is sought as and when required.
- There are consistent Group-wide governance and reporting structures.
- Appropriately timed updates on actions and implementation are tracked and provided to the Board to ensure timely delivery or adjustment in the event that priorities or needs change.

### Strategic discussions

- All Board members are expected to contribute their views and insights to provide appropriate strategic guidance. The diversity of skills, knowledge and experience assists debate and results in informed decision making that considers the needs of our stakeholders.
- The Board utilises the Group's well established systems and ways of working to ensure that there is proper consideration of the potential short- and long-term consequences of decisions.
- Management is appropriately contactable at and in between meetings to allow the timely provision of sensitive information when required.

### Strategy and culture

- Coats' culture is characterised by agile collaborative ways of working that deliver high-quality strategic outputs. The Board is committed to maintaining a tone that ensures our high standards of business conduct are upheld at all levels within the Group. The importance of maintaining our reputation for 'doing the right thing' is well understood.
- We continue to challenge ourselves, and those in our supply chain, to demonstrate the highest standards of conduct in our dealings and the Board, together with the Audit and Risk Committee, monitor these areas, including the insights from supplier audits, and discuss interventions with management where required.









Specific examples of Board decision making, including how stakeholders were considered and further examples of how their input contributed to the outcomes, are shown on pages 50 to 51. Other information considered by the Board during 2023 relating to the S172 Factors is set out below:

S172 Factor	Relevant disclosures
<b>(a) The likely consequences of any decision in the long-term.</b>	<ul style="list-style-type: none"> <li>– Chair's statement (pages 5 to 6)</li> <li>– Strategy (page 17 to 18)</li> <li>– Business model (pages 19 to 20)</li> <li>– Sustainability (pages 37 to 38 and TCFD disclosures (pages 181 to 197)</li> <li>– Principal risks and uncertainties (pages 52 to 58)</li> <li>– Long-term viability statement (page 59)</li> </ul>
<b>(b) The interests of the Company's employees.</b>	<ul style="list-style-type: none"> <li>– People and Culture (pages 13 to 14)</li> <li>– Business model (page 20)</li> <li>– Division updates (pages 26,30 and 34)</li> <li>– Key performance indicators (GPTW® certification, page 42)</li> <li>– Stakeholder engagement (page 47)</li> <li>– The Board and culture (page 75)</li> </ul>
<b>(c) The need to foster the Company's business relationships with suppliers, customers and others.</b>	<ul style="list-style-type: none"> <li>– Business model (pages 19 to 20)</li> <li>– Division updates (pages 25 to 34)</li> <li>– Stakeholder engagement (pages 46 to 48)</li> <li>– Principal risks and uncertainties (pages 52 to 58)</li> <li>– Operating review (pages 60 to 62)</li> </ul>
<b>(d) The impact of the Company's operations on the community and the environment.</b>	<ul style="list-style-type: none"> <li>– Stakeholder engagement (pages 47 to 48)</li> <li>– Sustainability (pages 37 to 38)</li> <li>– Principal risks and uncertainties (pages 52 to 58)</li> <li>– Directors' report (SECR disclosures, page 105 to 106)</li> <li>– TCFD disclosures (pages 181 to 197)</li> </ul>
<b>(e) The desirability of the Company maintaining a reputation for high standards of business conduct.</b>	<ul style="list-style-type: none"> <li>– People and Culture (pages 13 to 14)</li> <li>– Non-financial information statement (pages 43 to 45)</li> <li>– Principal risks and uncertainties (pages 52 to 58)</li> <li>– Audit and Risk Committee Report (pages 79 to 84)</li> <li>– Whistleblowing (page 104)</li> </ul>
<b>(f) The need to act fairly as between members of the Company.</b>	<ul style="list-style-type: none"> <li>– Stakeholder engagement (page 46 to 47)</li> </ul>







## Section 172 statement cont.

## BOARD DECISION MAKING DURING THE YEAR

Examples of Board decision making during the year and S172 Factors considered	Stakeholder considerations and outcomes	
<p><b>Pensions</b></p> <p>Further to the agreement that had been made in December 2022 resulting in the implementation of a mechanism to 'switch off/switch on' the Company's regular pension deficit repair payments to the UK Pension Scheme (Scheme), the Board continued to closely monitor the funding position of the Scheme. In December 2023, it was agreed with the UK Pension Trustee (Trustee) that the regular cash contributions be 'switched off' subject to the payment of a lump sum of £10 million.</p>	 <b>EMPLOYEES</b>	<p>The Board considered the benefits of continuing to de-risk the Scheme for both current and future pensioners. De-risking the Scheme by purchasing insurance policies is the safest form of asset class for current and future pensioners.</p>
	 <b>SHAREHOLDERS</b>	<p>Noting the attractiveness of free cash flow generation to shareholders, both in terms of the ability of the Company to reinvest those cash flows to compound growth or provide additional returns to shareholders, the Board considered the monthly free cash flow benefit of 'switching off' the regular contributions. The Board considered investor feedback in relation to previous pension actions.</p>
	<p>Outcome – Mindful that the payment of the £10 million lump sum was expected to result in free cash flow benefit of circa £2 million per month for the period in which the pension deficit repair payments remained 'switched off', the Board considered that the payback period and benefits to all stakeholders were compelling enough to reach agreement with the Trustee. The deficit repair payments will remain 'switched off' for so long as the Scheme's assets remain above 99% of its technical provision.</p>	
<p><b>Divestments during 2023 – including Mauritius/Madagascar, European Zips and change in manufacturing locations</b></p> <p>Following the move to a divisional operating structure in January 2023, and as part of the ongoing strategic projects, the Board continued to consider the footprint of the organisation to ensure that this remained optimised to meet the ongoing needs of the Group and its stakeholders. In particular, during 2023, the Board considered the divestment of the Mauritian and Madagascan business units, the European Zips business and the relocation of production of certain of the Group's products to move these closer to customers and to maximise utilisation of existing facilities.</p>	 <b>CUSTOMERS</b>	<p>When considering the potential opportunities and challenges arising from further optimising the footprint of the business, the Directors noted the alignment to Coats' strategic aim to bring operations closer to customers. The Board also considered the impact of the divestments of non-core assets on the customers of the Group, noting that this would potentially result in the end of certain relationships.</p>
	 <b>SUPPLIERS</b>	<p>The Board considered the impact on new and existing supplier relationships, particularly in ensuring the need for suppliers to adhere to the Group's Supplier Code and ensuring the consistency of supply.</p>
	 <b>COMMUNITIES</b>	<p>The Board is aware that changing the location of where we do business can have significant impacts on the communities in which we operate, especially when decisions result in us exiting an area. Accordingly, the Board considered the wide ranging impacts resulting from the divestments and relocations, including the potential effects on the local economy and, in particular, any reduction in local opportunity.</p>
	 <b>EMPLOYEES</b>	<p>The Board regularly deliberated and monitored the impacts of the further changes to the operating structure on existing and new employees, through regular project and people updates as well as assessing the overall cultural impact on the Group's employees through the results of the various employee surveys. There was discussion regarding the increased opportunities for employees in new business areas and/or relocated operations balanced against the challenges presented to employees that would exit the business, with relocation opportunities considered where appropriate.</p>
	 <b>ENVIRONMENT</b>	<p>The Board is aware that moving operations closer to customers can result in environmental benefits from a shortened supply chain. The Board also sought to ensure the Group's laser focus on achieving the strategic plan, including meeting our ambitious sustainability targets, through having the right range of product solutions manufactured in the right way in the right location.</p>
	 <b>SHAREHOLDERS</b>	<p>The Board noted the positive reception from investors to our new operating model and the range of self-help strategic projects to allow the Group to manage items within its control during the continued period of economic uncertainty and challenge.</p>
	<p>Outcome – After detailed consideration of both the short- and long- term impacts of the divestments and relocation of production activities, and having considered the feedback from stakeholders presented regularly at meetings and noting the various impacts on stakeholder groups resulting from these projects, the Board agreed to approve the divestments and relocation of certain production facilities.</p>	



## Section 172 statement cont.

Examples of Board decision making during the year and S172 Factors considered	Stakeholder considerations and outcomes	
<p><b>Financial considerations including dividend payments</b></p> <p>The continued global economic and geopolitical uncertainty resulted in lengthy Board discussions regarding the financial performance of the Group, including the best approach to capital allocation. There was detailed consideration of the level of both the interim and final dividend based on a full assessment of the Group's position considering, amongst other factors, the ongoing destocking and the Group's market share gains.</p>	<p> <b>SHAREHOLDERS</b></p>	<p>The Board understands the importance of regular returns to shareholders and the feedback received regarding the Group's progressive dividend policy supports this.</p> <p>Outcome – Having considered several different scenarios, the Directors agreed to pay an interim dividend of 0.81 cents per share, a 15% increase on the prior year, on 15 November 2023. The Directors are proposing a final dividend of 1.99 cents per share, a 15% increase on the prior year, which will be paid, subject to shareholder approval at the forthcoming AGM, on 30 May 2024 to ordinary shareholders on the register at 3 May 2024, with an ex-dividend date of 2 May 2024.</p>
<p><b>DE&amp;I-related targets</b></p> <p>The Board has continued to closely monitor the implementation of and the outcomes to date from the 'Coats for All', 'Coats for Her' and 'Coats Cares' programmes. These programmes support the development and continuation of a number of aspects of the Group's desired culture. The Board also considers the impact these, and other Group initiatives have had on our previously communicated sustainability targets including the coverage of Great Place To Work® certification and the number of women in leadership roles. Continuing the Group's ambitions in DEI-related areas, and in line with the new request from the Parker Review, in December 2023 the Board considered setting an ethnicity target to be achieved by 2027.</p>	<p> <b>COMMUNITIES</b></p>	<p>The Directors have long understood the importance of diversity within all levels of the workforce to support the Group in achieving its ambitions. The Board considered the insights presented during the year regarding the activities in local communities and how the Group had continued to support those in the areas in which we operate.</p>
	<p> <b>EMPLOYEES</b></p>	<p>The Board considered the regularly presented updates regarding people and progress on our sustainability-related targets during the year. The Board also considered the feedback from the Designated Non-Executive Director for workforce engagement, in particular on the positive response to the culture-related initiatives and also the desire for further opportunities within the Group.</p>
	<p> <b>SHAREHOLDERS</b></p>	<p>The Board noted the positive feedback received over many years in relation to the Group's commitment to DEI and ESG. Investors' desire to see diverse workforces has increased over recent years and the Board is aware of the continuing trend.</p> <p>Outcome – Following consideration of all relevant factors, including recent certification of Coats Group plc as one of the World's Best Workplaces™, the Board considered the current levels of ethnic representation at GET level and amongst the population reporting into the GET. Noting the Group has a global footprint, the Board agreed to set a target, using the definitions of the Parker Review, stating that "The Group is committed to maintaining circa 50% ethnic diversity in our senior leadership team, while recognising that periods of change in the composition of senior leadership may result in temporary periods when this balance is not achieved".</p>