



Modern slavery statement

Modern slavery and transparency in supply chains statement

This statement has been prepared for the year ending 31 December 2017 and is in accordance with the requirements of the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act of 2010. The statement takes account of UK Government guidance¹, has been approved by Coats Group plc Board of Directors and is applicable to all Coats business units and subsidiary companies.

1. Our business and supply chain

Coats is the world's leading industrial thread manufacturer and a major player in the Americas textile crafts market. We operate in more than 50 countries, employing some 19,000 people across six continents and our products are sold in over 100 countries. Our Industrial business is the leading producer of industrial thread for the apparel and footwear industry, we have a leading and expanding position in the performance materials market and our Crafts business is the largest player in the Americas textile crafts market.

We have over 2,000 direct material and product suppliers, located in more than 70 countries worldwide, who supply raw materials, components and finished goods for our industrial and crafts business units. We also work with over 10,000 'indirect' suppliers providing, for example, equipment, consumables, agency workers, maintenance and cleaning services and a range of professional services.

2. Our policies and principles

We operate to high ethical business, employment and recruitment standards across all of our global operations. Our business reputation, together with the trust and confidence of the people we do business with, is one of our most valuable assets and one which we strive to protect. High ethical standards also make good business sense, they create value for our company, our shareholders and ultimately for society as a whole.

We have zero tolerance towards exploitative employment practices and our policies and codes of practice make specific reference to the avoidance of slavery, forced or bonded labour both in our own operations and in our supply chain. We uphold the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015.

¹ Transparency in Supply Chains etc, A practical guide, Guidance issued under section 54(9) of the Modern Slavery Act 2015, www.gov.uk

Furthermore, we support the UN Guiding Principles on Business and Human Rights throughout all our operations. Our global policies uphold the requirements of the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core ILO² Conventions, and the OECD³ Guidelines for Multinational Enterprises.

a. Our Operations

At Coats, we all share the responsibility for developing and maintaining a working environment that we can be proud of. The foundations of this lie in everyone acting with honesty, integrity and fairness and speaking up if they feel this is not happening.

Our Ethics Code (http://www.coats.com/assets/files/cms/Ethics_Code.pdf) sets out the basic principles and standards that we expect of all our employees and partners. The code applies to everyone who represents, or acts on behalf of, Coats and helps them to understand their role in upholding our values.

To supplement this, our worldwide Employment Standards (http://www.coats.com/assets/files/cms/Coats_worldwide_employment_standards_Oct_2017.pdf) set out the principles which are observed across our global operations.

A Whistleblowing Policy (http://www.coats.com/assets/files/cms/Whistleblowing_Policy.pdf) and process is in place to encourage the reporting of any possible occurrences of non-compliance with the code or any policy, including a whistleblowing hotline.

b. Our Supply Chain

It is vital that our relationships with business partners and suppliers are aligned with our own business principles and our approach to Corporate Responsibility. As a result, we continually review our approach to ethical and sustainable supply chain management.

We have developed a detailed Supplier Code (http://www.coats.com/assets/files/cms/Coats_Supplier_Code_2017.pdf), which outlines the expectations we have of our suppliers. The Supplier Code, which was piloted in 2015 and launched globally throughout 2016, is based on international standards and, in the absence of such standards, accepted good practice. The Code covers labour practices, environmental management, responsible sourcing of materials and products, and business conduct. It also contains specific requirements around human trafficking and forced and bonded labour:

‘Suppliers must not use slavery, forced or bonded labour or involuntary prison labour in their businesses. Suppliers must not directly or indirectly engage in or support human trafficking, by recruiting, transferring, harbouring or receiving a worker using threat, force, coercion or deception. Suppliers must have a system in place to check that employees have a legal right to work.’

3. Due diligence, risk assessment, audits and training

We have undertaken a human rights risk assessment to identify the areas of highest risk both in our own business operations and in those of our supply chain. We have mapped our operations and those of our supply chain to identify particular industry/sectoral risks as well as risks from their geographical location. To identify particular country risks, we have taken account of a number of external benchmarks and indices in our risk assessment process, including the UN Human Development Index, ITUC⁴ Global Rights Index, Freedom House Freedom in the World Civil Liberties, UNICEF⁵ % of children aged 5-14 years engaged in child labour, US State Department Trafficking in Persons, and Transparency International’s Corruption Perceptions Index. Our assessments are reviewed on a regular basis.

² International Labour Organisation

³ Organisation for Economic Cooperation and Development

⁴ International Trade Union Confederation

⁵ The United Nations Children’s Fund

The risk assessment helps to focus our efforts on internal communication and employee training and supports the rollout and monitoring of the Supplier Code across all our companies, with an initial focus on the higher risk areas of our business.

a. Our Operations

We carry out internal audits against our business principles to ensure that we are upholding our standards globally. In China specifically, we have a team of people who have been trained and certified as Corporate Responsibility Auditors and are now equipped with the skills to carry out their own social compliance audits. Furthermore, our manufacturing plants are regularly audited by our clients and global branded customers to ensure we are meeting their ethical trade standards.

We continually promote 'doing the right thing' by raising awareness and embedding our Corporate Responsibility (CR) policies and our ethical standards across the business. All senior employees and those with externally facing roles complete mandatory ethics and compliance training. We have an online training package covering the core themes of our CR programme, including anti-corruption, competition, slavery, child labour and ethics. In addition, a number of face-to-face training sessions have been held in key high-risk locations, such as Brazil, Bangladesh, Colombia, India, Turkey and Vietnam, to help ensure that everyone at and associated with Coats continues to understand Coats' high ethical standards.

b. Our Supply Chain

We engage with our suppliers and partners around the issues outlined in the Supplier Code, and have developed a due diligence and review protocol for our procurement teams to use in assessing supplier credentials.

The Supplier Code was introduced to our suppliers in 2016 and 2017. Our key suppliers (large volume in areas of high risk) were introduced to the Supplier Code by means of a one-day workshop, hosted by our local Coats site. Following the workshops, suppliers were required to conduct a gap analysis of their own procedures and practices against the Coats' Supplier Code. They were asked to report back to Coats with their analysis, denoting areas of non-compliance and providing an action plan for improvement. Our procurement teams monitor the implementation of the plan and provide hands-on advice and support for each of our key suppliers. The Supplier Code was communicated to our medium risk suppliers verbally, by either phone or at a face to face meeting with procurement. Low risk suppliers have been sent the Supplier Code by email.

By the end of 2017, 97% of our suppliers have been informed about our Supplier Code and suppliers representing over 45% of our total spend have attended the one-day workshops.

A review of Supplier Code adherences also forms an integral part of our routine reviews of supplier performance. We have also reserved the right to audit our suppliers and partners, to the furthest extent permitted by law and any contract we have in place, to ensure compliance with the Supplier Code (see audit outcome update below).

In the event that we become aware of any supplier company acting in contravention of the requirements in our Supplier Code, we reserve the right to demand corrective actions or ultimately to terminate the agreement. Following our Supplier Code global rollout in 2016, we undertook 12 follow-up workshops in 5 high-risk countries in 2017. We carried out these workshops in Bangladesh, India, China, Indonesia and Vietnam, where we have focused on two high priority themes: Modern Slavery and Anti-Bribery and Corruption. 276 (95%) of the key suppliers in these countries attended a follow-up workshop.

This year we have also run a third-party supplier audit with 39 suppliers in Vietnam. Audits were conducted by Bureau Veritas, using the Coats Supplier Code audit template and results showed that 20 suppliers were graded 'Good', 16 were 'Acceptable' and 3 required improvement. Since these audits we have engaged with the 3 suppliers that required improvement to assist them in developing their policies and processes. They will be audited again in early 2018 to check on progress. The suppliers rated 'Acceptable' will be re-audited within two years of the date of their previous audit and suppliers rated 'Good' will be re-audited within three years of the date of their previous audit.

4. Future plans

We realise that the risks to our business from Modern Slavery will continually evolve and we will continue to review our approach to tackling the issue. Our aim is to ensure that slavery does not exist in our business and our supply chains.

We will continue to raise awareness across the business on modern slavery issues and ensure that all our key employees continue to receive refreshed training on ethics including the issues around slavery; to this effect our internal communication and training materials will be reviewed and updated accordingly.

Next year, we will continue our engagement with our suppliers, providing support and guidance to ensure adherence with our Supplier Code. To this effect, we will be revisiting our processes to continue raising awareness within our supply chain and to ensure our suppliers have the most effective measures in place to mitigate human rights issues, including slavery. Our procurement teams, who are reviewing the self-assessment questionnaires completed by suppliers, will receive further training to ensure that all self-assessments have been reviewed and any non-compliances have been assessed and followed up appropriately. Any 'critical' non-compliances will be dealt with as a priority by the procurement teams. We will collect key performance metrics from supplier audits to keep track of the number of non-compliances and ensure those are resolved and closed as soon as possible.

This statement will be updated annually to reflect our ongoing focus.

Rajiv Sharma
Group Chief Executive, Coats

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