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## Anti-bribery and Anti-corruption Policy

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<b>Policy owner/ issued by</b>	<b>Approved by</b>	<b>Date issued/reviewed</b>	<b>Effective from</b>	<b>Next review</b>
Chief Legal & Risk Officer & Group Company Secretary	Group Executive Team on behalf of the Board of Directors	June 2018	June 2018	June 2019

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For the purposes of this policy, all companies within the Coats Group plc group structure will be referred to as 'Coats' or the 'Company'. This policy (the 'Policy') should be read in conjunction with the Gifts and Entertainment Policy and the Whistleblowing Policy which can be found in the policies section of Coats World.

## Table of contents

Statement of policy on anti-bribery and anti-corruption compliance .....	3
1. Background .....	4
2. Scope of the Anti-bribery & Anti-corruption Policy (the 'Policy') .....	4
3. Consequences of breach .....	4
4. Key principles .....	4
5. Definitions .....	5
6. General requirements.....	5
7. Responsibilities – Anti-corruption Officer .....	6
8. Due diligence and Third Parties .....	6
9. Facilitation payments.....	8
10. Gifts, hospitality and entertainment.....	8
11. Political and charitable contributions.....	8
12. Recordkeeping .....	9
13. Training.....	9
14. Review.....	9
15. Questions and information .....	9
16. Contacts .....	9
17. Frequently asked questions .....	10
APPENDIX: Case Studies .....	13

## Statement of policy on anti-bribery and anti-corruption compliance

Coats requires its employees and workers to act honestly and with integrity at all times and to safeguard the resources for which they are responsible. In this context Coats is committed to ensuring that opportunities for corruption and bribery are eradicated. These principles are based on the commitment of the Board of Directors of Coats Group plc to fundamental values of integrity, transparency and accountability. Coats aims to create and maintain a trust-based and inclusive internal culture in which there is zero tolerance for bribery and corruption including facilitation payments.

This document sets out Coats' policy for the control of actual and suspected corruption and bribery within Coats, and the processes to be followed in the event of actual or suspected instances of corruption or bribery being discovered.

Coats will re-examine its links with any third parties it has reasonable grounds to suspect are involved in bribery or corruption. It will not hesitate to take appropriate legal and/or disciplinary action against employees and third parties who breach the Company's anti-bribery and anti-corruption programme, including this policy.

You are required to read this policy carefully and to ensure that you, your staff and any third parties you have appointed, comply with it at all times. If you are ever found to have infringed this policy you will be subject to disciplinary measures, which may include dismissal.

If you are uncertain about any aspect of this policy or how it might apply to a particular agreement or proposal, please **SEEK ADVICE** from your line manager or from the Anti-corruption Officer, details of which are set out below.

### Group Executive Team

**Remember –  
If in doubt  
seek advice**

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## 1. Background

1.1. Bribery and corruption are criminal offences in every country in which Coats operates. Anti-bribery and anti-corruption laws have a significant impact on our operations globally. In particular, laws including the Bribery Act (UK) and Foreign Corrupt Practices Act (USA) influence how Coats must behave, including when interacting with third parties, anywhere in the world.

## 2. Scope of the Anti-bribery & Anti-corruption Policy (the 'Policy')

2.1. This Policy applies to all Employees and Third Parties (as defined in section 5 below) regardless of geographical location and provides the minimum standard of behaviour expected from them.

2.2. On the basis that this Policy is based on UK and US anti-corruption laws, it provides a very high standard of compliance and is therefore likely to meet most local standards. Nevertheless, we recommend that Employees familiarise themselves with the applicable anti-corruption laws in each jurisdiction in which they conduct business on behalf of Coats.

## 3. Consequences of breach

3.1. Legal penalties for bribery and corruption are severe, and may include imprisonment for individuals involved. For example, UK law allows for 7 to 10 years imprisonment or an unlimited fine. In addition, Coats could face severe fines or other criminal penalties for bribery and corrupt activity by Employees and Third Parties.

3.2. Coats will investigate fully any activity contravening this Policy and, where applicable, take disciplinary action up to and including termination of employment.

## 4. Key principles

4.1. You must not:

- Offer, promise or give a 'thing of value' (as explained in section 4.4 below) to any person (either directly or indirectly);
- Intending to induce or reward any person to perform improperly a function or activity that he/she is expected to perform in good faith, impartially or from a position of trust (e.g. the award of a contract or an order).

4.2. You must not:

- Offer, promise, give or receive a thing of value to a Public Official (either directly or indirectly);
- Intending to obtain business (e.g. a contract) or an advantage in the conduct of business (e.g. a licence, permit or approval).

#### 4.3. You must not:

- Request, agree to receive or accept a thing of value (directly or indirectly);
- As a reward for, or in anticipation of, you or any other person performing improperly a function or activity that is expected to be performed in good faith, impartially, or from a position of trust.

4.4. Things of value can include cash payments, gift vouchers, lavish gifts, improper political or charitable contributions, tickets to entertainment events, employment of relatives, the provision of services free of charge or anything else of substantive value.

4.5. The indirect offering, promising or giving of a thing of value would be, for example, through a relative or close associate of the person in question.

4.6. The activities and functions that are expected to be performed in good faith, impartially or from a position of trust are very broad and include most matters that are: connected with a business; which occur in the course of a person's employment; or are of a public nature.

4.6.1. Specific examples include: the award of a contract or order; offers of employment; the grant of a permit or licence; and the provision of public services.

## 5. Definitions

### 5.1.

<b>Employees</b>	Means employees of Coats and all workers performing duties on behalf of Coats, whether or not employed directly by Coats.
<b>Facilitation Payments</b>	Means payments of small amounts to Public Officials in order to secure or expedite a routine governmental action to which you are otherwise lawfully entitled (e.g. processing a visa, secure delivery of goods). Sometimes also known as "grease" payments.
<b>Public Officials</b>	Means individuals who: a) are defined as public officials in the national law of a state; b) hold a legislative, administrative or judicial position of any kind whether appointed or elected; c) exercise a public function; or d) are officials or agents of a public international organisation. This includes employees and officers of state-owned companies.
<b>Third Parties</b>	Means agents, brokers, partners, distributors, consultants, suppliers, contractors, service providers, joint venture partners and any other individuals or entities providing services for or acting on behalf of Coats.

## 6. General requirements

6.1. Coats is committed to complying with applicable anti-bribery and anti-corruption laws in all countries in which Coats conducts business.

- 6.2. Coats, its Employees and Third Parties (regardless of jurisdiction) must not be involved in any activities which constitute or could be perceived as bribery. Any offer to bribe another person will constitute an improper act, regardless of whether the offer is accepted, or the intended result is obtained.
- 6.3. Coats (acting through its Employees and/or Third Parties) will accurately record all business transactions in its books and records.
- 6.4. Coats will not tolerate its Employees or Third Parties being involved in bribery or corruption. All reported incidents of actual or suspected corruption or bribery will be promptly and thoroughly investigated and dealt with appropriately (including applicable disciplinary action).
- 6.5. Employees and Third Parties are required to draw attention to circumstances where they believe that there **is, may be, has been, or might have been** improper behaviour by other Employees or Third Parties in accordance with this Policy and the Whistleblowing Policy (a copy of which can be found on Coats World). All matters will be dealt with in confidence and in strict accordance with the terms of applicable legislation intended to protect the legitimate personal interests of Employees.
- 6.6. Coats, its Employees and Third Parties must use extra caution when engaging with Public Officials, including when considering making gifts, or providing hospitality, to Public Officials. See the Gifts and Entertainment Policy for more information.

## 7. Responsibilities – Anti-corruption Officer

- 7.1. The Anti-corruption Officer has responsibility within the Company for advising on anti-bribery and anti-corruption matters.

## 8. Due diligence and Third Parties

- 8.1. Coats may be liable for acts of bribery by Third Parties, anywhere in the world.
- 8.2. **Before** working with a Third Party, Employees are required to carry out due diligence and a risk assessment on the Third Party to understand the Third Party's background and reputation and to understand any bribery and corruption risks that may exist.
- 8.3. The **minimum** level of due diligence required to be **performed** and **documented** is:
  - 8.3.1. Perform a company search to ensure that the company is properly constituted and registered with the appropriate authority (e.g. search the Commercial Register);
  - 8.3.2. Review the Third Party and potential business relationship for any red flags (please refer to 8.5 below for an explanation of red flags);
  - 8.3.3. Review the Third Party's potential business partners (please refer to question 9 in the Frequently Asked Questions (FAQ) below for guidance);

8.3.4. Review the proposed project or business transaction in order to identify as far as possible the risk of corruption or bribery (please refer to question 10 in the FAQ for guidance).

8.3.5. Ensure that an agreement between Coats and a Third Party is entered into which captures the business relationship and contains an anti-bribery and anti-corruption clause, including the right to audit the Third Party for compliance with the requirements of the clause (please ask for assistance from the Legal Team if required); and

8.3.6. Document the steps that were taken for the review of the Third Party including due diligence checks and all supporting documents. The documents will evidence to auditors, regulators and Coats that a proper due diligence process has been undertaken.

8.4. If any red flags or other concerns arise during due diligence, you must contact the Anti-corruption Officer who will advise further, including on any additional checks to be carried out before engaging the Third Party.

### **Red flags**

8.5. When conducting due diligence on Third Parties, watch out for red flag indicators for potential bribery or corruption concerns. Red flags include:

### **Referrals from Third Parties**

8.5.1. A Public Official recommends that Coats hire a specific third party.

8.5.2. A Third Party Coats seeks to engage lacks qualifications or staff to perform the expected services.

8.5.3. A Third Party relies heavily on political or government contacts instead of technical skills or time invested.

8.5.4. The same Third Party is repeatedly used for business without any reasonable justification for their repeated appointment.

### **Financial Irregularities**

8.5.5. The proposed compensation of a Third Party is unreasonably high compared to the market rate and there is no reasonable explanation.

8.5.6. The proposed compensation arrangement is unusual (e.g. an unusually high rate of commission, or success fee arrangements contingent on the award of a contract or licence).

8.5.7. A Third Party requests payments:

8.5.7.1. be made off-shore;

8.5.7.2. be made to a different person or entity ;

8.5.7.3. be split among multiple accounts;

8.5.7.4. be made to an account in a country other than where the Third Party is located or business is to be performed; or

8.5.7.5. which are otherwise unusual financial arrangements.

8.5.8. Upon checking references, you find that the Third Party has an undesirable reputation or is not well known in the industry.

8.5.9. A Third Party Coats seeks to engage is reluctant to use a formal written contract, or refuses to agree to include an anti-bribery and anti-corruption clause.

8.6. Please note that this is a non-exhaustive list and other instances exist which may flag potential bribery or corruption concerns. If you have any queries as to whether a Third Party should be used, you must contact the Anti-corruption Officer.

8.7. There are case study examples set out in the Appendix to this Policy.

## **9. Facilitation payments**

9.1. Coats prohibits Facilitation Payments by its Employees and Third Parties. Facilitation Payments are illegal in almost all countries in which Coats operates.

9.2. The only exception is where there is no alternative but to make a Facilitation Payment in order to protect against injury, loss of life or liberty. Under these exceptional circumstances Employees should notify the Anti-corruption Officer in writing as soon as they are able to do so. Any payments made must be accurately recorded. This narrow exception only applies to situations where there is an immediate threat of violence or personal harm. It does **not** apply to commercial "extortion".

9.3. If you have any questions or concerns about whether or not to make a payment which might constitute a Facilitation Payment you should contact the Anti-corruption Officer for advice beforehand.

## **10. Gifts, hospitality and entertainment**

10.1 In **all** cases where you are considering offering or accepting any gifts, hospitality or entertainment you must first consult the Gifts and Entertainment Policy, which can be found on Coats World.

## **11. Political and charitable contributions**

11.1. All political and charitable contributions whether made directly or indirectly must comply with applicable laws, must be publicly disclosable and must not be able to be perceived as a bribe.

11.2. Requesting or authorising payments on behalf of Coats to a Public Official, political party, candidate or incumbent for political office are prohibited unless prior authorisation has been obtained from the Anti-corruption Officer who will determine whether or not the proposed payment is permissible.

11.3. For information about personal political contributions, you should contact the Anti-corruption Officer.



## **12. Recordkeeping**

- 12.1. All transactions must be fairly and accurately recorded in Coats' books and records. There must be no "off book" or secret accounts. No documents may be created which do not fairly and accurately reflect the transactions to which they relate.
- 12.2. All disbursements and other financial transactions must be authorised by management according to the appropriate delegated authority.
- 12.3. Undisclosed or unrecorded funds may not be established for any purpose.
- 12.4. Coats' funds must not be placed in any personal or non-corporate account.

## **13. Training**

- 13.1. Coats will provide training to all Employees identified as being in roles where bribery and corruption is a risk to ensure they are aware of the types of corruption and bribery, the risks of engaging in corrupt activity and bribery, and how they may report suspected and actual corruption and bribery. It is the responsibility of Third Parties to ensure that they have access to suitable training. However, Coats will provide such training if requested to do so.

## **14. Review**

- 14.1. Each year Coats will review this Policy in light of any changes in applicable law and revise it as appropriate. Every two years Coats will commission an independent assessment and certification of this Policy and will revise the Policy as appropriate in light of the independent assessment.

## **15. Questions and information**

- 15.1. If you have any questions or require further information on any aspect of this Policy, please contact any member of the Legal Team and/or one of the contacts listed below.

## **16. Contacts**

- 16.1. For more information, contact:
  - 16.1.1. Your line manager
  - 16.1.2. The Anti-corruption Officer

## 17. Frequently asked questions

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### Q1 How can I find out if a country has an anti-bribery or anti-corruption law in place?

A1 Always assume a country has anti-bribery or anti-corruption laws in place. In fact some countries have severe penalties including the death penalty for corrupt behaviour. The Organisation for Economic Co-operation and Development's (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (Anti-bribery Convention) represents the most well-known guidance point for companies. The Anti-bribery Convention itself establishes standards criminalising the bribery of foreign public officials. Countries adopting the Anti-bribery Convention must then adopt their own legislation that criminalises the bribery of foreign public officials. Most states and municipalities have anti-bribery and anti-corruption laws in place. The relevant law in the UK, for example, is the Bribery Act while in the USA it is the Foreign Corrupt Practices Act. Both of these laws have extra-territorial effect, meaning they potentially apply to the conduct of their respective citizens anywhere in the world. There may also be local rules and regulations governing what gifts can be accepted by Public Officials. You should contact the Anti-corruption Officer if you would like more information on anti-corruption laws. However, this Policy sets the standard which applies to Coats worldwide.

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### Q2 Where can I find information about a country's corruption level?

A2 One resource is Transparency International (<http://www.transparency.org>), a global organisation focused on fighting corruption. Each year, Transparency International publishes its Corruption Perceptions Index, which measures the perceived levels of corruption in different countries.

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### Q3 If anti-bribery or anti-corruption laws in some countries permit Facilitation Payments, why does Coats prohibit them?

A3 In most of the jurisdictions around the world where the Coats does business, local law prohibits Facilitation Payments. In any case in addition to being possibly illegal, corruptly offering money or anything of value for services or to influence a decision is not ethical and is a poor business practice. Such behaviour does not align with Coats' commitment to conduct business ethically and with integrity.

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### Q4 Can the Coats still do business with government-owned entities?

A4 Yes. Anti-corruption laws do not prevent Coats from conducting legitimate business with government entities or Public Officials. However, you should always be aware of any potential red flags or indicators of corruption and bribery (including in relation to any Third Parties who deal with government entities and Public Officials on our behalf). If you suspect or become aware of corruption or bribery, you must contact the Anti-corruption Officer immediately.

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**Q5 Do I need to be aware of any other requirements when interacting with Public Officials?**

A5 Yes, there are a number of requirements that apply to interactions with Public Officials including requirements creating prohibitions on providing gifts, meals and/or entertainment to government officials, and restrictions on and disclosure of political contributions.

No gifts, meals, hospitality and/or entertainment should be offered to Public Officials unless prior approval has been obtained in line with the Gifts and Entertainment Policy.

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**Q6 What happens if an Employee offers a bribe to a Public Official but does not end up paying the bribe? Can this still be a violation of the applicable anti-bribery or anti-corruption laws?**

A6 Yes. The offer to provide something to a Public Official in exchange for that person using his or her position to influence decisions – even if no payment is actually made – is likely to violate the applicable anti-bribery or anti-corruption laws – and will violate Coats policies.

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**Q7 I noticed some payments that seemed odd last month, but after briefly discussing the payments with other members of my team, I decided to let the payments go without additional questions. Have I done anything wrong?**

A7 Yes. If you become aware of questionable payments or other red flags or suspicious activity, you must immediately contact the Anti-corruption Officer. Looking the other way, turning a blind eye or otherwise failing to raise troubling information or red flags for further review is not acceptable under this Policy. It may also violate anti-bribery or anti-corruption laws.

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**Q8 What are the penalties for violating anti-bribery or anti-corruption statutes like the UK Bribery Act or the Foreign Corrupt Practices Act?**

A8 Violations of the anti-bribery or anti-corruption statutes can lead to significant criminal penalties for both individuals and corporations including fines and imprisonment.

Other penalties, such as being suspended from doing business with the government or Public Officials, a bar from participating in the securities business, expulsion from the local jurisdiction and local civil and criminal penalties, might also apply.

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## Q9 How can I review and assess a Third Party for potential risk?

A9 Some questions that could be asked are:

- Have you taken steps to establish the background and qualifications of an individual and/or company?
- Have you considered the extent to which the company may have any employees, third party operatives, or relatives who may be in a position to influence or effect the way that the individual performs services for Coats e.g. are they associated with a Public Official?
- Have you taken steps to find out if there are any bankruptcies, debarments from public procurement, criminal convictions or current investigations into bribery, fraud, breaches of company law, embezzlement, tax evasion, false accounting, import/export or anti-competition violations on the part of anyone associated with the individual's company?
- Have you sufficiently followed through with all of the individual's references, checked the corporate registration documents, proof of registration with local tax authorities, and enquired of any significant or relevant contracts in a particular company that an individual/company has been associated with?
- Are you content that you will be able to require an individual to sign up to a legally binding agreement requiring, for example, a clear expressed prohibition of bribery on Coats' behalf?

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## Q10 How can I review a proposed project or business transaction in order to identify as far as possible the risk of corruption or bribery?

A10 Some questions that could be asked are:

- Is reliance on intermediaries to enter a particular market justified?
  - Is it possible to reduce or limit Coats' reliance on an intermediary?
  - Will Coats' aims be best served by an incorporated body, a partnership or an individual?
  - Does Coats' need to grant an individual or a company exclusive rights to provide services in a particular country?
  - Has Coats properly assessed the risk of reliance on agents in a particular country generally?
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## APPENDIX: Case Studies

The two case studies below allow for Employees to review hypothetical scenarios Coats may encounter. In addition, further case studies are available in the on-line training course Coats has created which all Employees are required to complete.

### Case Study 1 – Joint Venture

Coats is interested in a recent development of thread which company E ('E') has created. As a result, Coats proposes to enter into a joint venture with E. It is proposed that Coats and E would have an equal holding in the joint venture company ('CE'). Coats identifies the necessary interaction between CE and local public officials as a source of significant risks of bribery.

Coats could consider negotiating for the inclusion of any or a combination of the following bribery prevention procedures into the agreement setting up CE:

- Parity of representation on the board of CE.
- That CE put in place measures designed to ensure compliance with all applicable bribery and corruption laws. These measures might cover such issues as:
  - gifts and hospitality
  - agreed decision making rules
  - procurement
  - engagement of third parties, including due diligence requirements
  - conduct of relations with Public Officials
  - training for staff in high risk positions
  - record-keeping and accounting.
- The establishment of an audit committee with at least one representative of each of C and E that has the power to view accounts and certain expenditure and prepare regular reports.

Binding commitments by Coats and E to comply with all applicable bribery laws in relation to the operation of CE, with a breach of these commitments by either Coats or E being considered a material breach of the agreement between them. This could lead to termination or other similarly significant consequences.

All employees must ensure that an anti-bribery and corruption clause is included in all contracts signed by new business relations. Furthermore, employees should ensure purchase, service and other third party agreements also incorporate such a clause. If you have any questions, please contact the Anti-corruption Officer.

## Case Study 2 – Due Diligence of agents

Coats has an opportunity to enter an emerging market in a foreign country ('H') by way of a government contract to supply equipment to the state. Local convention requires any foreign commercial organisations to operate through a local agent. Coats is concerned to appoint a reputable agent and ensure that the risk of bribery being used to develop its business in the market is minimised.

Coats could consider any or a combination of the following:

- Compiling a suitable questionnaire for potential agents requiring for example, details of ownership if not an individual; CVs and references for those involved in performing the proposed service; details of any directorships held, existing partnerships and third party relationships and any relevant judicial or regulatory findings.
- Having a clear statement of the precise nature of the services offered, costs, commissions, fees and the preferred means of remuneration.
- Undertaking research, including internet searches, of the prospective agents and, if a corporate body, of every person identified as having a degree of control over its affairs.
- Making enquiries with the relevant authorities in H to verify the information received in response to the questionnaire.
- Following up references and clarifying any matters arising from the questionnaire or any other information received with the agents, arranging face to face meetings where appropriate.
- Requesting sight or evidence of any potential agent's own anti-bribery policies and, where a corporate body, reporting procedures and records.
- Being alert to key commercial questions such as:
  - Is the agent really required?
  - Does the agent have the required expertise?
  - Are they interacting with or closely connected to Public Officials?
  - Is what you are proposing to pay reasonable and commercial?
- Renewing due diligence enquiries on a periodic basis if an agent is appointed.

You will recall that paragraph 8 of this Policy incorporates a due diligence procedure which should be used for third parties generally.