



Modern slavery and transparency in supply chains statement

This statement has been prepared for the year ending 31 December 2018 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 the Coats Group plc Board of Directors and is applicable to all Coats business units and subsidiary companies. Coats Group plc is based in the UK and as at 31 December 2018 had 201 subsidiaries worldwide.

1. Our business and supply chain

Coats is the world's leading industrial thread manufacturer. We have a global manufacturing footprint with some 50 manufacturing sites (see link below) and our products are sold in over 100 countries. Click [here](#) for more detail on our global footprint. We provide complementary and value added products and services to the apparel and footwear industries; and apply innovative techniques to develop high technology Performance Materials threads and yarns in areas such as automotive, composites and fibre optics.

We have a diverse and global supplier base with over 1,800 direct material and product suppliers, located in more than 70 countries worldwide, who supply raw materials (predominantly polyester and nylon), intermediates (grey thread and bought-in craft products), components and other manufacturing materials (cones, packaging and chemicals) and finished goods for our various business units. We also work with over 11,800 'indirect' suppliers (including contractors) providing for example, equipment, consumables, agency workers, maintenance and cleaning services and a range of professional services.

We value our workforce highly, employing over 19,000 people worldwide. In 2018, we had 32 nationalities represented in our senior management group and 63 across our business. We support freedom of association in jurisdictions where it is permitted, and around 32% of our permanent employees are subject to a collective agreement and 33% are members of a union.

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

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

in our supply chains. We promote the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015.

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 Universal 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, our Chief Legal and Risk Officer, Stuart Morgan is responsible for overseeing human rights compliance and risk, including modern slavery, whilst Monica McKee, our Chief Human Resources Officer, deals with all labour issues from an employment perspective. Our Group Risk Management Committee (GRMC) manages and reviews risks to our operations, including those relating to ethical and human rights matters, and monitors progress of any preventative and mitigating actions. On a quarterly basis, the GRMC reports to the Audit and Risk Committee which reports into the Coats Group plc Board.

In addition to the above, we all accept the responsibility for developing and maintaining excellence in this area. The foundations of this lie in everyone acting with honesty, integrity and fairness and speaking up if they feel this is not happening.

In 2018, we updated all our ethics-related policies, including our Ethics Code. All our relevant policies are publicly available on our website as well as being signposted in all our pertinent internal documentation. Our [Ethics Code](#) sets out the basic principles and standards that we expect of all our employees, contractors 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 including a specific requirement against slavery and forced labour:

'We are committed to ensuring that we do not use slavery or forced or bonded labour in our own operations or in our supply chains'.

To supplement this, our worldwide [Employment Standards](#) set out the principles which are observed across our global operations.

A [Whistleblowing Policy](#) 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. This policy has been reviewed and updated this year. In previous years, the hotline was hosted by a third party supplier but, as of 2018, it is now in-house in response to feedback from employees across the Group who indicated that they felt more comfortable reporting their concerns through an internal whistleblowing channel. Ever since the launch of our ethics programme - 'Doing the Right Thing' – designed to ensure our ethical culture is fully embedded across the Group, we have seen an increase in the number of whistleblowing concerns, suggesting that our efforts to raise the profile of these issues has been successful and indicating increased trust placed by employees in the whistleblowing process. Some of the issues raised have included unfair

² International Labour Organisation

³ Organisation for Economic Cooperation and Development

employment practices as well as disrespectful behaviour, bullying and harassment. All issues have been investigated and resolved. Importantly though, the number of concerns in 2018 which were found to be substantiated after proper investigation was considerably lower than in previous years. In the case of every such substantiated concern, disciplinary action was taken whenever there was evidence of misdemeanour and training and enhanced controls were implemented wherever appropriate.

General compliance with our HR policies is monitored through the regular activities of our independent Group Internal Audit function who perform periodic audits on all units depending on their risk profile.

b. Our Supply Chains

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](#), which has been reviewed again in 2018, which outlines the expectations we have of our suppliers (including contractors). The Supplier Code, which was piloted in 2015 and rolled out globally during 2016 and 2017, 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 in relation to 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.’

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.

Our recently updated Ethics Code also includes detailed requirements consistent with our Supplier Code around the prohibition of exploitative employment practices in our supply chains.

3. Due diligence, risk assessment, audits and training

Our aim is to ensure that slavery does not exist in our business or in our supply chains. In 2017, our human rights risk assessment helped us identify the areas of highest risk both in our own business operations and in those of our supply chain. We mapped our operations and those of our supply chains to identify particular industry/sectoral risks as well as risks from their geographical location. To identify particular country risks, we took 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’s Freedom in the World map, UNICEF⁵ percentage of children aged 5-14 years engaged in child labour, US State Department

⁴ International Trade Union Confederation

⁵ The United Nations Children's Fund

Trafficking in Persons and Transparency International's Corruption Perceptions Index. Our assessments are reviewed every two years. Our last review was at the end of 2017.

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

a. Our Operations

Our Group Internal Audit team carries out internal audits against our business principles to ensure that we are upholding our standards globally, both within our own operations and in any outsourced operations to third parties. This includes audits against our employment standards and expectations. Furthermore, in China, because of the higher risk identified in that country, 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. In addition, our manufacturing plants are regularly audited by our clients and global branded customers to ensure we are meeting their ethical trade standards. In the event that any serious issue is raised, matters are escalated immediately and an on-site investigation is carried out in full where necessary. Any follow-up actions are urgently identified and implemented.

During 2018, we continued to 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, along with our suppliers, completed mandatory and refreshed online ethics and compliance training, along with additional training modules during the year, covering the core themes of our CR programme, including anti-corruption, competition, slavery, child labour and ethics. In 2017, a number of face-to-face training sessions were held in key high-risk locations, such as Brazil, Bangladesh, Colombia, India, Turkey and Vietnam, to help ensure that everyone associated with Coats continues to understand Coats' high ethical standards. In addition to regular internal communications on ethics issues and practical examples of how to behave and not to behave in various real world scenarios, twice a year we highlight key ethical issues through our 'Spotlight on' programme; and to help get the messages out and assist in implementing our policies, we have appointed a number of ethical champions across the business.

As part of the online training we have developed and released a specific modern slavery module. This training aims to give 4,500 of our employees an understanding of what modern slavery is, how to spot it, what to do if found and how to prevent it. The online package has been rolled out in 11 languages to all our senior employees and those with externally facing roles. We are expecting that all these employees will have completed the training by the end of March 2019. It is delivered using information slides, multiple choice quizzes and a short examination to test each employee's knowledge at the end. We are now preparing materials to be delivered to remaining employees.

b. Our Supply Chains

We always assess forced labour and modern slavery risks, using our Supplier Code, before entering into contracts with suppliers. To do so, we have developed a due diligence and review protocol for our procurement teams to use in assessing supplier credentials. Any suppliers who have entered into contracts

with us will have agreed to abide with the provisions related to modern slavery risk and other issues outlined in our Supplier Code.

The Supplier Code was introduced to our suppliers in 2016. Our key suppliers (large volume in areas of high risk) were introduced to the Supplier Code by a one-day workshop, hosted by us at 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. This is why we have also developed a global 'Train the Trainer' programme for our procurement teams to support them in embedding the detailed requirements of our Supplier Code and the implications for them as employees and for our suppliers. The Supplier Code was also communicated to our medium risk suppliers orally, by either phone or at a face to face meeting with procurement personnel. Low risk suppliers were sent the Supplier Code by email.

In 2017, we undertook 12 follow-up workshops in 5 high-risk countries. We carried out these workshops in Bangladesh, India, China, Indonesia and Vietnam, where we focused on two high priority themes: Modern Slavery; and Anti-Bribery and Corruption. We also ran a third-party supplier audit in Vietnam with 39 suppliers. 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. If any follow-up actions are required by the suppliers such actions are checked by the Group Head of Insurance, Property, Product and Environmental Safety. This year, instead of running more workshops, we have taken the time to consolidate our approach by continuing to strengthen our relationship with our suppliers and work with them to ensure compliance with our Supplier Code, for example through using the Code as an agenda discussion topic during meetings with suppliers and so maintaining ongoing awareness and compliance. We continue to review and assess the approach and effectiveness of controlling our upstream supply chain. We have also revisited our supplier onboarding system to ensure that focus on and compliance with the Supplier Code is as embedded within the process as possible.

In 2018, we continued to engage with the 3 suppliers identified in 2017 in Vietnam as requiring improvement. Those 3 suppliers are now taking the necessary actions to ensure the areas for improvement identified are being appropriately dealt with. Following on the success of the audit programme in Vietnam, we rolled out the same third-party audit with 27 of our key suppliers in Indonesia. 12 of these suppliers were assessed as Acceptable and 15 Good and requiring no further action. Suppliers graded as Acceptable will be audited again in two years and suppliers graded Good will be audited again in three years.

4. Future Plans

We realise that the risks to our business from Modern Slavery will constantly evolve and we will continue to review our approach to tackling the issue. During 2019, we will repeat our human rights risk assessment taking account of new information available from the NGOs and third party indices described above.

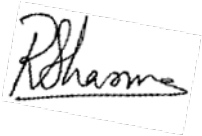
We will continue to raise awareness across our business of modern slavery issues and ensure that all our key employees have successfully completed our new Modern Slavery training. We will focus particular attention on modern slavery through one of our 'Spotlight on' initiatives and our 'Doing the Right Thing'

programme and will review our policies and procedures with regard to on-site contractors and agency workers.

During 2019, we will continue our engagement with our suppliers, providing support and guidance to ensure adherence with our Supplier Code. To this effect, we will run new workshops for high risk suppliers and continue to raise awareness across all our suppliers to ensure they have the most effective measures in place to mitigate human rights issues, including slavery. We will also trial the employment of people whose specific role will be to ensure adherence with our Supplier Code by hiring a Supplier Code Coordinator in India.

Our procurement teams will receive further training to ensure that supplier self-assessment questionnaires and audits are appropriately analysed, and that non-compliances are appropriately assessed and followed up. Additionally, in 2018, the audits identified corrective action plans, which have been communicated to the suppliers and they will be assessed against their action plan in the next round of supplier audits. 'Critical' non-compliances will continue to be dealt with as a priority by the procurement teams. We will continue to collect key performance metrics from supplier audits to keep track of the number of non-compliances and ensure these are resolved and closed as soon as possible.

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

A handwritten signature in black ink, appearing to read 'Rajiv Sharma', enclosed within a dashed rectangular border.

Rajiv Sharma

Group Chief Executive, Coats