



---

## Modern slavery and transparency in supply chains statement

---

This statement has been prepared for the year ending 31 December 2019 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 guidance<sup>1</sup>, has been approved by the Coats Group plc Board of Directors and is applicable to all Coats business units and subsidiary companies. Note that the boards of directors of the following UK incorporated companies have formally approved the statement because each of these subsidiaries fulfils the criteria set out in the UK Modern Slavery Act 2015: Coats Limited; Coats Group Finance Company Limited; Coats Holdings Limited; J. & P. Coats, Limited; and Coats Industrial Thread Limited. Coats Group plc is based in the UK and as at 31 December 2019 had 179 subsidiaries worldwide. A list of our subsidiaries can be found at the back of our most recent [annual report](#).

### 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. In 2019, our manufacturing sites were located in the following countries: Bangladesh; Brazil; Bulgaria; China; Colombia; Egypt; Estonia; Germany; Honduras; Hungary; India; Indonesia; Italy; Madagascar; Mauritius; Mexico; Morocco; Pakistan; Poland; Romania; South Korea; Spain; Sri Lanka; Thailand; Tunisia; Turkey; USA and Vietnam. 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 around 18,000 people worldwide. In 2019 we had 31 nationalities represented in our senior management group and 60 across our business. We support freedom of association in jurisdictions where it is permitted, and around 43% of our permanent employees are subject to a collective agreement and the same percentage are members of a union.

---

<sup>1</sup> Transparency in Supply Chains etc, A practical guide, Guidance issued under section 54(9) of the Modern Slavery Act 2015, [www.gov.uk](http://www.gov.uk)

## 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 and prohibition of slavery, forced or bonded labour both in our own operations and in our supply chains. We prohibit any form of labour that is demanded as a means of repayment for a loan, debt or bond in our own operations, in our supply chains and through our recruitment agencies. 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 ILO<sup>2</sup> Conventions, and the OECD<sup>3</sup> 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 2019, we reviewed and 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.

---

<sup>2</sup> International Labour Organisation

<sup>3</sup> Organisation for Economic Cooperation and Development

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 without any fear of retaliation. This policy has been reviewed and updated this year. To ensure all workers have an appropriate mechanism to report any possible non-compliance, we have a confidential internal whistleblowing hotline ([ethics@coats.com](mailto:ethics@coats.com)) which is accessed and managed by the Group Internal Audit team and the Group Legal team. Our ethics programme - 'Doing the Right Thing' – is designed to ensure our ethical culture is fully embedded across the Group and we promote the hotline at the bottom of our programme posters and communications with the following strap line 'Speak up if you see an issue. Ask if you are unsure Remember – You can confidentially email: [ethics@coats.com](mailto:ethics@coats.com). Doing the right thing, together'. Since the launch of our ethics programme, 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 employment practices as well as disrespectful behaviour, bullying and harassment. In 2019, we did not have any whistleblowing concerns or allegations linked to slavery, forced or bonded labour. All issues are investigated and resolved. Importantly though, and for the second consecutive year, the number of concerns in 2019 which were found to be substantiated after proper investigation was considerably lower than in previous years (39% in 2018 reducing to 30% in 2019). 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. In 2019, the HR function designed and implemented a self-assessment tool comprising 28 key HR controls. Based on the self-assessment of HR controls, the HR function is confident that we are complying with the labour laws in each of our clusters. The key area of focus for 2020 will be the management of contract labour.

#### 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 2019, with the refreshed version due to be implemented in Q1 2020, which outlines the enhanced 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 as 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 2019, we updated our human rights risk assessment (which was previously done in 2017). This helps 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, ITUC<sup>4</sup> Global Rights Index, Freedom House's Freedom in the World map, UNICEF<sup>5</sup> percentage of children aged 5-14 years engaged in child labour, and the Global Slavery Vulnerability Index.

The results from this year's risk assessment show very little changes compared to our assessment in 2017. As part of our analysis for our internal operations, we have taken our country risk score and weighted it by the employee numbers in each country. Again, we have seen a marginal improvement in the employment weighted risk profile, which reduced by 4% compared to our assessment from 2017. This reflects improving assessments for some countries where we have substantial employee numbers. However, this risk reduction is not sufficient to warrant any change to our current activities and future plans which will continue at the current high level.

With regard to our supplier base, we do not currently have transparency of the employment numbers in our upstream supplier base. We are therefore planning to use procurement value by supply category and country as a proxy for this. This is a more granular assessment than we have made previously where we have principally focussed on country level risk. This will form part of the assessment to be completed in 2020.

Overall, 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 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

---

<sup>4</sup> International Trade Union Confederation

<sup>5</sup> The United Nations Children's Fund

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 2019, 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 new senior employees completed mandatory online ethics and compliance training, along with additional training modules during the year that are provided to all employees with a company email address, covering the core themes of our CR programme, including anti-corruption, competition, slavery, child labour and ethics. In 2019, a number of face-to-face training sessions were held in key high-risk locations, such as Bangladesh, Brazil, Honduras, India, and Mexico, 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. On 12 December 2019, we published a survey to employees to test the understanding and effectiveness of our 'Doing the Right Thing' programme. The results of the survey will be analysed in early 2020 and any follow-up actions taken as necessary.

As part of the online training we have developed and released a specific online modern slavery module. This training aims to give all of our employees with a company email address an understanding of what modern slavery is, how to spot it, what to do if found and how to prevent it. The online package was rolled out in 2018 in 11 languages to all our senior employees and those with externally facing roles and required those taking the test to score 80% in order to pass. All these employees had completed the training by the end of March 2019 and there was a pass rate of 92%. Training reminders are sent to those that have not passed the training and additional support is provided where necessary. It was delivered using information slides, multiple choice quizzes and a short examination to test each employee's knowledge at the end. The training was well received by our employees and feedback suggests that the training has reinforced the importance of modern slavery awareness internally. Our plan is to repeat the training every two years, with the next round being scheduled for 2021. In addition, we are now preparing materials to be delivered to remaining employees and strive for a pass rate of 100%. These materials will be circulated internally for use in our various team briefing sessions. The team briefing sessions are the most practical way to drive this down to that section of the employees that don't have email addresses. We will also ensure we have a register to track delivery and coverage of those training materials.

#### 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 (suppliers of critical products or services) in areas of high risk were introduced to the Supplier Code at a one-day workshop, hosted by the

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 supplier's improvement 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, either by 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.

Following 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 were found to be 'Good' and requiring no further action. In addition in 2019, 27 suppliers located in India were also audited by Bureau Veritas using the Coats Supplier Code audit template. 10 suppliers were graded 'Good' and 17 were graded 'Acceptable'.

By way of follow up, suppliers graded as 'Acceptable' will be audited again in two years and suppliers graded 'Good' will be audited again in three.

#### **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 2020, we will repeat our human rights risk assessment taking account of new information available from the NGOs and third party indices described above. In addition, we will be liaising with suppliers to join them on their sustainability journey including modern slavery risk management. This deeper engagement activity will align with the ongoing supplier risk assessment work that we are undertaking (see above).

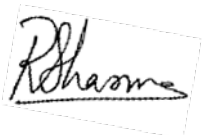
We will continue to raise awareness across our business of modern slavery issues and ensure that all our key employees have successfully completed our new Modern Slavery training. We will focus particular attention on modern slavery by recording and publishing an employee podcast on the topic of modern

slavery, we will conduct another 'Spotlight on' session and continue our 'Doing the Right Thing' programme and we will keep under review our policies and procedures with regard to on-site contractors and agency workers.

During 2019, the Coats procurement team engaged a third party provider to host a secure online supplier portal. The roll out plan is underway, and we aim to have our top 100 suppliers (determined by \$ spend) onboarded within the portal by mid-2020. This is one way in which 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 further 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. These workshops will include emerging key suppliers and new suppliers that were not supplying to Coats at the time of the original workshops.

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, any 2019 audits that identified corrective action plans will be communicated to the suppliers and they will be assessed against their action plan in the next round of supplier audits. Any 'critical' non-compliances will 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 in a dashed rectangular box.

Rajiv Sharma

Group Chief Executive, Coats