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## Modern slavery and transparency in supply chains statement

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This statement has been prepared for the year ending 31 December 2021 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 2021, had 166 subsidiaries worldwide. A list of Coats' subsidiaries can be found at the back of our most recent [annual report](#).

### 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 2021, 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; 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 over 18,000 people worldwide. In 2021 we had 30 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 46% of our permanent employees are subject to a collective agreement and around 47% are members of a union (both of these have increased from 43% in 2019). In addition to our permanent employees, numbering 18,822, at the end of the year, we have 545 employees working in our joint venture operations in China and across the globe we had an additional 3,450 temporary employees in our operations. We apply the same management controls to all employees directly

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<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)

contracted by Coats and our outsourced services providers are subject to the same controls as our other suppliers.

## **Our policies and principles**

We operate to high ethical business, employment and recruitment standards across all 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.

### Our Operations

At Coats, our Chief Legal and Risk Officer, is responsible for overseeing human rights compliance and risk, including modern slavery, whilst our Chief Human Resources Officer, deals with all labour issues from an employment perspective. Our Group Risk Management Committee (GRMC) (which is comprised of our Group Executive Team and other subject matter experts as appropriate) 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 2021, we reviewed a number of our ethics-related policies, including our Speak Up (Whistleblowing) Policy and Undue Influence Policy. We also approved the adoption of our Living Wage Policy. In 2022 we will review our Ethics Code, Anti-Bribery and Anti-Corruption, Competition Law, Gifts & Entertainment and Sanctions policies. 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. Every year, employees must sign an Ethics Code certification confirming that they understand the Ethics Code and that they have conformed with the code. The Code

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<sup>2</sup> International Labour Organisation

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

includes reference to anti-corruption, competition law, and gifts & entertainment (amongst many other ethical activities). There is also online ethics training that is rolled out to employees every two years; the next roll out will be in Q4 2022. 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 and the [Coats Key People Principles](#), published in 2020, outline the 8 principles that provide an overview of Coats’ commitment and policies and include Worldwide Employment Standards and Working Hours Policy. The Coats Key People Principles include the statements, “Coats believes the human rights of its employees at work are an absolute and universal requirement” and “respecting human rights through ethical practices, providing living wages and promoting health and wellbeing of employees”.

A [Speak Up \(Whistleblowing\) 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 is reviewed and updated periodically and has been revised in 2022. 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. In 2020 we also launched a new and confidential Coats Ethics Concerns Voicemail open to all employees and individuals, internal and external, to call to report possible occurrences of non-compliance. It is not necessary for the individual who is reporting a concern to provide their name or details. In addition only a very limited number of employees can listen to the voicemail. Individuals can report on any ethical issue, including slavery. We have a zero tolerance policy against any form of whistleblower retaliation, which includes prohibiting actions taken to breach the confidentiality of the complaint and the whistleblower’s identity. Strict disciplinary action will be taken against individuals involved if retaliation is proven. 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 and the new voicemail 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) or call the Coats Ethics Concerns Voicemail on +44 208 2105 088. Doing the right thing, together’. The whistleblowing channel is well advertised for use by employees, including third party vendors and third party employees working on site. In addition to the above, a web-based external Speak Up channel (Coats EthicsPoint) has been operationalised in 2022. Efforts are made regularly at various sites such as through Doing the Right thing sessions, town halls etc., to raise awareness of the whistleblowing channel. In Q4 2021 we marked Global Ethics Day where we facilitated discussions with our employees on various ethical issues. In 2021, we did not have any whistleblowing concerns or allegations linked to slavery, forced or bonded labour. A whistleblowing deep dive was also conducted by Group Internal Audit by interviewing employees across different functions. As a result of the deep dive, further actions that would increase trust, in particular on the part of contract workers, in the whistleblowing process were identified; including improving communications on the inner workings of the whistleblowing hotline to increase understanding and addressing workers’ fears of retaliation. All

whistleblowing issues are investigated and resolved. 98 allegations were raised through the whistleblowing channel in 2021 (83 in 2020) with an upheld rate of 33% (24% in 2020) for investigations completed so far, of which fewer than 10% are outstanding at the date of this statement. The nature of the allegations received in 2021 included; (i) unfair employment practices, (ii) disrespectful behaviour, harassment and bullying, (iii) fraud, (iv) ethics code violations, (v) health and safety and (vi) other. 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 2020, an updated Self-Assessment template was published with 28 key HR controls in the following areas:

- Payment of minimum and overtime wages
- Working hours, shift working and overtime hours
- Statutory deductions and payouts
- Payroll controls including master control, payout controls, payout reconciliations
- Attendance controls
- Controls around employee onboarding, leaving, loans and advances
- Manpower contractor management – wage management, working hours, overtime
- Segregation of duties

We review this on a quarterly basis, and any issues identified are actioned appropriately.

### 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 was last refreshed and re-issued in Q4 2020. The updated version of the Supplier Code outlines the enhanced expectations we have of our suppliers and 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, indentured servitude, 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 and suppliers must have adequate processes in place to deal with any reports and incidents of such behaviour taking place. Suppliers must have a system in place to check that employees have a legal right to work. Suppliers to Coats, in turn, are expected to monitor their own suppliers and ensure that slavery, servitude, forced or bonded labour or involuntary prison labour is not being used in their suppliers' businesses. Coats prohibits North Korean labour in any country unless it can be proved beforehand that slave conditions are not in place.'

In addition, in 2020, our procurement function implemented a ban on suppliers from ethically sensitive parts of the world.

In the event that we become aware of any supplier company acting in contravention of the requirements in our Supplier Code, we notify the supplier promptly and we reserve the right to demand corrective actions or ultimately to terminate the agreement.

### **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 2021, we updated our human rights risk assessment (which was previously done in 2019, and we regularly do this on a biennial basis). 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 based on their geographical location. To identify particular country risks, we take 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 from Walk Free.

The results from this latest risk assessment for our internal operations show some changes compared to our assessment in 2019. The availability of country-level child labour risk ratings in the UNICEF database has increased and this means that the risk level in a number of countries appears to have increased. We police employee age very tightly and, as in previous years, have had no cases of underage employment in our operations. We have assessed the changing risk profile and determined that our current activities and future plans remain appropriate for managing this risk. While for our internal operations we are able to weight country risk by employee numbers in each country, we do not have transparency of employment numbers in our upstream supplier base. We have therefore analysed the value of purchases of relevant goods and services by country and mapped that against the Global Slavery Vulnerability Index. This has shown that 4% of our relevant global purchases are made in countries that are high risk on that index, principally representing purchases from suppliers based in Pakistan, Egypt and Mexico. We are ensuring, in 2022, that supplier audits in these countries have a modern slavery and human rights focus. While our exposure in high-risk countries is relatively low, 57% of our relevant global purchases are made in medium-risk countries, with India, China and Vietnam accounting for 70% of that amount. Again, we are using our supplier audit

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

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

programme in these countries during 2022 to ensure that we have a particular modern slavery and human rights focus.

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.

### Our Operations

Our Group Internal Audit team carries out internal audits to assess whether Coats values and principles are adhered to across our global operations. This includes verification of our employment standards and expectations. Furthermore, in China, due to the higher risk that we have 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 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 2021, 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. In 2021, all new wired employees with a company e-mail address received mandatory online ethics and compliance training covering the core themes of our CR programme, including anti-corruption, slavery and child labour, competition and ethics. To help ensure that everyone associated with Coats continues to understand Coats' high ethical standards, training sessions were held in key medium and high risk locations such as China, Vietnam, Indonesia, Thailand, Mexico, Honduras, Bangladesh, Sri Lanka, Egypt, Morocco and Pakistan. In addition, we provide regular internal communications on ethics issues and practical examples of how to behave and not to behave in various real world scenarios, and recognising exemplary behaviours. At least twice a year we highlight key ethical issues through our 'Spotlight on' programme by raising awareness through communications materials such as briefings and posters. To help get the messages out and assist in implementing our policies, we have appointed a number of ethical culture champions across the business. Also, as mentioned above, during Q3 2020 Group Internal Audit conducted a deep dive into the whistleblowing process. The employee interviews elicited a generally very positive response on awareness of and confidence in the whistleblowing channel, and whistleblowers who had raised allegations in the recent past provided positive feedback that their concerns had been addressed.

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 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 taken the training by the end of March 2019 and there was a pass rate of 92%. Training is rolled out to new joiners and training reminders are sent to those that have not taken the training and additional support is provided where necessary, including to any employees who have not passed the training. During 2021 over 700 employees completed the modern slavery training out of cycle



mainly as new joiners. Training 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 indicates that the training has reinforced the importance of modern slavery awareness internally. Our plan is to repeat the training every two years, along with our general compliance training programme and the next biennial iteration of this will take place in 2022. During 2021 we have implemented our Coats Link app which allows us to communicate to all Coats employees irrespective of whether they have a company email address. This will allow us to continue to extend direct communications on this topic to a wider audience during 2022.

### 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 must 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.

Since the launch of the Supplier Code in 2016, we have been carrying out a rolling audit programme of suppliers. Audit plans in 2020 were significantly affected by the lockdowns due to the COVID-19 pandemic, as suppliers did not allow third parties on their premises. Where possible, some audits were conducted virtually, but most suppliers were focussed with coping with the impacts of the pandemic and requested that Supplier Code audits were deferred until lockdown conditions were lifted. Time was spent establishing and reinforcing the training and auditing responsibilities within the Coats teams globally. In 2021, 280 of our key suppliers were audited by Bureau Veritas using the Coats' Supplier Code template. 93% of suppliers who were audited scored  $\geq 60\%$ . Our supplier onboarding system helps to ensure that focus on and compliance with the Supplier Code is as embedded within the process as much as possible. As part of the audit process we check adherence to the Supplier Code. Coats engages with the audited suppliers to help clarify any doubts around non-compliances and also tracks the suppliers' progress in completing audit recommendations. Depending on the overall audit score, suppliers are re-audited in 6 months, 1 year, 2 years or 3 years. Previous audit recommendations are reviewed by Bureau Veritas at the next site audit.

## Future Plans

We realise that the risks to our business from modern slavery are in constant evolution and we therefore need to continuously review and adjust our approach to tackling the issue. During 2022, as noted above, we will be focussing in particular on our supplier assessment process to ensure that we are monitoring the compliance in our supply chain according to areas of greatest risk as identified in the risk assessment that we have recently completed, and we will review this risk assessment again during the year.

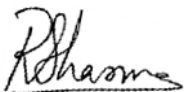
We will continue to raise awareness and understanding across our business of modern slavery issues and risks. We will focus attention on modern slavery through our employee podcast on the topic of modern slavery and during management meetings throughout the company where risk is considered and assessed. We will also keep under review our policies and procedures with regard to on-site contractors and agency workers. More generally, we will continue our strong focus on ethics, integrity and compliance across employees, contractors, agency workers and suppliers.

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).

During 2019, the Coats procurement team engaged a third party provider to host a secure online supplier portal. We now have 55 vendors completed, with suppliers being prioritised according to \$ spend. This is one way in which we will continue our engagement with our suppliers, by providing support and guidance to ensure adherence with our Supplier Code. To this effect, we will conduct workshops in all clusters 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 include emerging key suppliers and new suppliers that were not supplying to Coats at the time of the original workshops.

Additionally, any 2021 supplier audits that identified corrective action plans have been 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.



Rajiv Sharma

Group Chief Executive, Coats