

Coats Group Tax Strategy



Connecting.
Pioneering. Trusted.

Purpose

To connect talent, textiles and technology to make a better and more sustainable world

Goals

Profitable sales growth. Increased productivity. Value delivery.

Priorities

Customer experience. Digital first. Simplification. Innovation. Talent.

Foundations

Safety Compliance Sustainability Performance
Technology

“There is an ever-increasing momentum around the sustainability agenda within our industry, and from other key stakeholder groups. This has long been at the forefront of Coats’ thinking, and “doing the right thing” has always been core to our values....and we intend to leverage our leadership position in this space not only for our own benefit but also for the good of the industry and our planet. This is one of many key differentiators in our offering , and the incremental peace of mind this delivers for our partners party underpins our market share gains” Rajiv Sharma, Group Chief Executive.

We are the world’s leading industrial thread company. We operate to the highest ethical, business, and employment standards across our global operations.

As set out in the Coats Goals and culture framework, we ultimately aim to deliver value to our key stakeholders of customers, employees and shareholders. We will achieve this by focussing on our three goals, which are underpinned by key principles and priorities with a steady foundation.

To be successful now and in the future, we need to not only be mindful of our financial and operational performance, but also to recognise the role our business plays within society, as part of local communities around the world, and the impact we have on the environment.

We believe that a strong approach to Corporate Responsibility can help to make us a better business partner through, improved efficiency, better reputation and customer relationships, more motivated employees and safer working practices. To that extent, we have developed our Group Tax Strategy to ensure compliance with our goals and culture whilst being conscious of our corporate responsibility

Our Vision

- *We ultimately aim to deliver value to our key stakeholders in a sustainable, safe and compliant manner. We have certain principles and areas of priority that enable us to meet our goals and achieve our vision. These principles and priorities apply to tax as they do to any area of management in our organisation.*
- *The way we manage tax allows us to deliver value to key stakeholders in a sustainable safe and compliant way, and the way we manage tax is by focussing on the below principles:*

Our principles of tax management

I. Operate effective governance that upholds the freedom to operate while ensuring that we have appropriate visibility over the group's tax risks and filings to maintain compliance

- We will manage our tax affairs in a way which supports our goals, principles, priorities and foundation. We protect the value that we deliver to our stakeholders by ensuring we have suitable governance and control of our operations to meet all our tax compliance obligations across the jurisdictions in which we operate.
- Risk is inherent in all business activities and as a global industrial manufacturer, we maintain a comprehensive risk management framework that serves to identify, assess and respond to such principal risks. We also operate in a meritocratic culture with a clear commitment to maintain, foster and promote an ethical, legal and sustainable business environment.
- Our approach is focused on the timely identification of risks and related opportunities, combined with their appropriate mitigation and escalation. To deliver value through the operation of a robust risk management framework, we have embedded throughout the Group, the structural means to identify, prioritise and manage the risks involved in all of our activities. This enables us to run our business effectively and deliver our strategy in the knowledge that the likelihood and/or impact associated with such risks is understood and managed within our risk tolerance.
- This framework, along with our group policies, is embedded in practice across our Regional operational hubs, with tax specialists overseeing the daily management of our tax affairs. We work closely with the business and align the management of tax risk in accordance with the organisation's complexity and size, for example operating a Regional function structure for tax that enables us to focus on issues in the appropriate context for EMEA, Asia Pacific and the Americas. The Head of Tax and central tax function have key oversight over the Regional hubs, monitoring the day to day operation of tax. The Board of Directors is ultimately responsible for establishing the overall tax governance. and any issues are escalated by the Head of Tax as appropriate.
- Good risk management drives better commercial decisions, helping to deliver ongoing growth for a resilient and sustainable business. The Group is constantly alert to new and evolving risks. We operate a formal governance structure to manage risk across the Group and assign clear accountability for managing our risks. Whilst there is no defined level of tax risk appetite, overall responsibility for reviewing the Group's risk profile and setting risk tolerance, as well as assessing the Group's principal risks, rests with the Board. However, the management of risk using our common risk management framework is embedded throughout our global manufacturing, distribution, sales and other business operations as well as our enabling functions, with all our employees having an important role to play.
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Our published Global tax strategy, has been approved by the Board and satisfies Schedule 19 of UK Finance Act 2016, in respect of our financial year ending 31 December 2020

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- Understanding the risks that our business is exposed to, and deploying strategies that ensure residual exposures remain within acceptable parameters, is key to managing our business well. Our risk framework is based around four categories, which are used to build the Group Risk Register. Our approach to identifying risks follows a dual approach. A 'Top-down approach' based on regular input and insights from, and deep dive discussions involving, the Board, the Audit & Risk Committee and the Group Risk Management Committee, and a 'Bottom-up approach' based on regular individual business unit/function-level input which helps to identify the risks which could threaten local business or functional activities.
 - While these risks are managed at the local level, they are also aggregated and escalated as appropriate to the Group Risk Management Committee and the Board to help in the ongoing cycle of identification, testing and reviewing.
 - We operate an ongoing cycle of identifying risks; setting risk tolerance levels for those risks; testing those risks and risk tolerance levels through deep dive analysis into likelihood of occurrence, impacts, mitigation plans, related opportunities and resource and capital expenditure implications; then reviewing those risks and risk tolerance levels accordingly. We regularly review and, as appropriate, refine our risk management and reporting processes and activities, to enhance our ability to identify issues promptly and to proactively manage any risks and related opportunities.

II. Demonstrate energy for change and through positive teamwork partnering with the business to understand and advise in real-time on the tax implications of commercial transactions

- The tax function is embedded in our business through the Regional Tax Directors who work closely with the operating business to ensure that tax is considered when undertaking material transactions or business decisions. We have also embedded communication protocols between the tax function and the local finance and business teams, to ensure the tax function regularly provides them with information and briefings. The tax function also provides guidance to the business to ensure we have a focussed standard of delivery, reporting, and interaction between the business and tax hubs on tax matters across all territories. We ensure our staff are suitably qualified for their roles and provide continuous training and development opportunities to them.
- Finance Business Partners and local Finance Managers are expected to take the necessary steps to identify new corporate tax reporting obligations in their territories. This is likely to involve keeping up to date with changes by reading tax publications and engaging with external advisors. Finance Business Partners and local Finance Managers are expected to share changes in legislation and developments in reporting requirements with their Regional Tax Director as they arise. Regional Tax Directors are also expected to monitor changes in legislation and developments in reporting requirements and engage with Finance Business Partners and local Finance Managers to further understand any implications. Regional Tax Directors should share developments in their region with the Head of Tax through their weekly meetings. In addition, Head of Tax and the Central Tax Team regularly monitor news from countries in which we operate to help identify law changes and opportunities within the tax area.

III. Strive for profitable sales growth whilst protecting long term shareholder value, by structuring operations in a tax efficient manner in line with our principles of sustainability

- High ethical standards underpin the way we do business, as we build trust and ensure fair practices in the communities in which we operate. We will seek to comply with both the letter and the spirit of the tax laws that govern our business and pay taxes where our profits arise. We will understand the drivers of our effective tax rate and cash tax liabilities and undertake commercially focussed transactions in an efficient way which allows us to establish a sustainable, predictable tax position which supports our growth, and is comparable to our peers. Any tax planning undertaken is based on genuine commercial activity and supported by external professional advice as necessary. Coats does not maintain a presence in any jurisdiction solely for the purpose of taking advantage of a low statutory tax rate.

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- In line with our code of ethics ensuring we are honest, open and cooperative and properly record, report and review financial information, we work with our tax specialists, including transfer pricing tax specialists. In key jurisdictions, we evaluate and challenge the appropriateness of judgements and assumptions made by management, with respect to their assessment and valuation of transfer pricing tax risks specifically related to those arising from incremental management recharges.
 - Our Group Transfer Pricing Policy within our Group Tax Policy holds that transactions within the global structure follow the arms' length principle in line with the OECD Transfer Pricing Guidelines. We monitor intracompany transfer pricing to ensure the intragroup transfer pricing policy maintains margins within a comparable arms' length range. In all countries in which we operate, we review applicable treaties and local tax laws to ensure compliance. We have robust documentation procedures in place to support our Group charges. We engage with tax authorities and provide documentation and support when queried in an open and transparent way.

IV. Always operate in a respectful and inclusive manner ensuring that we have open and honest engagement with our stakeholders including tax authorities

- We will always engage with our stakeholders (Our business reputation, together with the trust and confidence of the people we do business with, is one of our most valuable assets. The Board is keenly aware that the effectiveness of our risk management is dependent not only on systems and processes but also on behaviours. At Coats, there is a culture of openness and transparency in how we make decisions and manage risk and this equally applies to the way we interact with tax authorities.
- We will always engage with our stakeholders (including HMRC, business partners, customers, analysts, the media, employees and government bodies) in an open, honest and robust manner. We will not take any tax positions we would not be comfortable defending and will seek to avoid disputes with tax authorities (HMRC and other worldwide authorities) wherever possible. We will work with tax authorities in relation to tax events and evaluating uncertain tax items, which are subject to interpretation, for example, in relation to advance pricing agreements for intercompany transactions. Where disputes arise, we will manage them in a timely manner, and will defend our position robustly. We work proactively with HMRC to ensure all our compliance obligations are met, and open and honest discussions are held. We currently enjoy a moderate risk status under the HMRC Business Risk Review Plus process and continually strive to identify and mitigate risk.
- *Our principles of tax management Our published Global tax strategy, has been approved by the Board and satisfies Para 16(2) Schedule 19 of UK Finance Act 2016, in respect of our financial year ending 31 December 2020 Dated: 16 December 2020*

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