



Modern slavery and transparency in supply chains statement

This statement has been prepared for the year ending 31 December 2022 and is in accordance with the requirements of the UK Modern Slavery Act 2015, taking into account UK Government guidance¹, and the California Transparency in Supply Chains Act of 2010. This statement has been approved by the Coats Group plc Board of Directors and is applicable to all Coats business units and subsidiary companies. The boards of directors of each of the following UK incorporated subsidiaries, which fulfil the criteria set out in the UK Modern Slavery Act 2015, have also formally approved the statement:- Coats Limited; Coats Group Finance Company Limited; Coats Holdings Limited; J. & P. Coats, Limited; and Coats Industrial Thread Limited.

In accordance with UK Government guidance, this statement reports on our:

- Organisational structure, business and supply chain
- Policies in relation to slavery and human trafficking
- Due diligence processes in relation to slavery and human trafficking
- Risk management and assessment processes
- Staff training and capacity building
- Organisational effectiveness in preventing slavery and human trafficking.

Our organisational structure, business and supply chain

Coats Group plc, which is listed on the London Stock Exchange, is based in the UK and as at 31 December 2022 had 179 subsidiaries worldwide. A list of Coats' subsidiaries can be found at the back of our most recent [annual report](#).

Coats is a world leader in thread manufacturing and structural components for apparel and footwear, as well as an innovative pioneer in performance materials. We have a global manufacturing footprint with some 50 manufacturing sites (see link below) and our products are sold in over 100 countries. In 2022, our manufacturing sites were located in: Bangladesh; Brazil²; 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 threads and yarns for sectors such as automotive, composites and fibre optics.

Over the last 12 months, there have been some significant changes to our business. In May 2022 we exited direct operations in Argentina and Brazil. In July 2022 we acquired Texon, a global leader in premium structural components and materials for the footwear, accessories and apparel industries. In

¹ [Transparency in supply chains: a practical guide - GOV.UK \(www.gov.uk\)](#)

² Coats completed the sale of its businesses in Brazil and Argentina to a third party in May 2022.

August 2022 we acquired Rhenoflex, one of the world's leading manufacturers of sustainable footwear reinforcement solutions. Both companies have a global manufacturing footprint and rely on an international network of direct and indirect suppliers. As part of our assessment of whether or not to pursue the acquisitions, we assessed both companies' Environmental, Social and Governance credentials, including their focus on modern slavery prevention. Upon completion of the acquisitions, we began a process to integrate the businesses into Coats, including reviewing the modern slavery controls that the businesses have in place and transitioning them to adopt and embed the controls detailed in this statement; a process which will continue through 2023.

We value our workforce highly, employing over 17,000 people worldwide. In 2022 we had 30 nationalities represented in our senior management group and 57 across our business. We support freedom of association in jurisdictions where it is permitted; approximately 50% of our permanent employees are subject to a collective agreement (2021: 46%) and around 44% are members of a union (2021: 47%)³. In addition to our permanent employees, numbering 16,709 at the end of the year, we had approximately 1,350 employees working across our joint venture operations in China, India, Italy, Mexico, Spain and Uruguay. We had an additional 3,702 temporary employees in our global operations. We apply the same management controls to all employees directly contracted by Coats and our outsourced services providers are subject to the same controls as our other suppliers.

We have a diverse and global supplier base with over 1,400 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 8,000 'indirect' suppliers (including contractors) providing, for example, equipment, consumables, agency workers, maintenance and cleaning services, and a range of professional services.

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 and organisations with whom we do business, 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 and forced or bonded labour, both in our own operations and in our supply chain. 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 chain 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 ILO⁴ Conventions, and the OECD⁵ Guidelines for Multinational Enterprises.

³ This relative decrease is due to the sale of the businesses in Brazil and Argentina and overall reduction in operative headcount

⁴ International Labour Organisation

⁵ Organisation for Economic Cooperation and Development

Our Operations

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. The GRMC reports regularly to the Audit and Risk Committee of the Coats Group plc Board of Directors.

Our anti-slavery and human trafficking policies are contained within our [Ethics Code](#) (the “Code”). The Code, which is reviewed and updated annually, is aligned to the standards and guidelines contained in the core international human rights instruments. It sets out the minimum ethical and fair business principles and standards to which we expect all our employees, contractors and partners to adhere. The Code applies to everyone who represents, or acts on behalf of, Coats and helps them to understand their role in upholding our values. The Code adopts a zero tolerance approach to the use of slavery or forced labour, both within our own operations and in our supply chain, and commits Coats to the international standards and guidelines referred to above. Every year employees must complete a certification confirming that they understand and have fully conformed to the requirements of the Code. To reinforce the principles of the Code, employees complete mandatory e-learning ‘Ethics at Work’ modules and attend in-person training sessions as appropriate.

In 2022, we reviewed a number of our key ethics-related policies, including our Anti-bribery and Anti-corruption Policy, our Competition Law Policy and our Gifts & Entertainment Policy. We also issued revised guidance covering compliance with international sanction regimes. Texon and Rhenoflex employees began received training on our global policies shortly after joining Coats.

To supplement the Code, our worldwide [Employment Standards](#) set out the minimum labour standards which are observed across all of our global operations whilst our [Key People Principles](#) outlines Coats’ commitment to upholding the basic rights and freedoms of our employees. Coats’ Key People Principles includes the following statements:- “*Coats believes the human rights of its employees at work are an absolute and universal requirement*” and that we ensure high social standards are upheld through “*respecting human rights through ethical practices, providing living wages and promoting health and wellbeing of employees*”. We also have a number of other key ethics-related policies, including our Anti-bribery and Anti-corruption Policy, Sanctions Instructions, Competition Law Policy and our Gifts & Entertainment Policy. All our relevant policies are publicly available on our website as well as being signposted in all our pertinent internal documentation.

We operate a whistleblowing policy and process to encourage the reporting of any possible occurrences of non-compliance with the Code or any other policy. The [Speak Up \(Whistleblowing\) Policy](#) extends to human rights violations and provides an avenue whereby any suspected instance can be reported without fear of reprisal. The policy is reviewed and updated periodically and was last revised in 2022. To ensure all workers have an appropriate mechanism to report instances of non-compliance, we operate multiple reporting channels, including an ethics hotline, a confidential whistleblowing email-based reporting system (ethics@coats.com) and a telephone voicemail service (‘Ethics Concerns Voicemail’). To further enhance our reporting mechanisms, in 2022 we also introduced an external web-based whistleblowing reporting application (‘Coats Ethics Point’). All of our reporting channels are open to employees and individuals, internal and external, to report possible occurrences of non-compliance. Individuals can report on any ethical issue, including slavery. We have a zero tolerance approach towards any form of

whistleblower retaliation, including actions that compromise the confidentiality of the complaint or the whistleblower's identity. Strict disciplinary action will be taken against individuals involved if retaliation is proven. Reporters can remain anonymous, however those who do provide contact details receive an update on the outcome of their complaint.

Our ethics programme - 'Doing the Right Thing' - is designed to ensure our ethical culture is fully embedded across the Group and we promote the ethics hotline, Ethics Concerns Voicemail and Coats Ethics Point 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, call the Coats Ethics Concerns Voicemail on +44 208 2105 088, or visit: <http://coats.ethicspoint.com>.

Doing the right thing, together.

Efforts are made regularly, such as through Doing the Right Thing sessions, town halls etc., to raise awareness of the various whistleblowing channels.

Our Supply Chain

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.

As far back as 2014 we began work to develop a minimum set of standards for our suppliers:- [Supplier Code: Guidance for achieving responsible business standards](#) (the "Supplier Code"). We rolled out the Supplier Code globally during 2016 and 2017. The requirements set out in the Supplier Code are aligned to the standards contained in the core human rights instruments, and include minimum requirements concerning labour practices, environmental management, responsible sourcing of materials & products and business conduct. The Supplier Code also contains specific prohibitions 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 the event that we become aware of any supplier company acting in contravention of the requirements of the Supplier Code, we notify the supplier promptly and we reserve the right to demand corrective actions or ultimately to terminate the agreement.

We have updated and reissued our Supplier Code several times; the next revision is due to be issued to suppliers in Q2 2023. Every time we make changes we engage with our suppliers to raise awareness of the new requirements and to ensure they fully understand the updated standards. Our engagement with

suppliers throughout 2022 included due diligence, supplier risk assessments, Supplier Code workshops, training and audits.

Due diligence and risk assessment processes

Our Operations

Our aim is to ensure that slavery does not exist in our business or in our supply chain. To this end we undertake a human rights risk assessment on a biennial basis. Last completed in 2021, the risk assessment helps us identify the areas of highest risk both in our own business operations and in those of our supply chain. We map our operations and those of our supply chain 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, ITUC⁶ Global Rights Index, Freedom House's Freedom in the World map, UNICEF⁷ percentage of children aged 5-14 years engaged in child labour, and the Global Slavery Vulnerability Index from Walk Free.

The results from our latest risk assessment for our internal operations show some changes compared to the previous assessment. 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 rigorously 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. With the acquisitions of Texon and Rhenoflex we have updated and expanded the scope of our risk assessment to ensure it covers our newly acquired operations.

Our Supply Chain

While for our internal operations we are able to weight risk by reference to a number of factors, such as location, nature of operations and employee numbers in each country, we do not have transparency of employment numbers in our upstream supplier base. We have therefore analysed the risk factors by reference to factors such as nature of the goods or services supplied and 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 made sure that supplier audits in these countries had a modern slavery and human rights focus in 2022. 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. We used our supplier audit programme in these countries during 2022 to ensure that we have a particular modern slavery and human rights focus.

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.

⁶ International Trade Union Confederation

⁷ The United Nations Children's Fund

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 medium to higher risk areas of our business.

Audit processes

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. 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.

General compliance with our people-related 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. To ensure we act in compliance with the labour laws of the countries we operate in, we complete an analysis against 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 controls, 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 Chain

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 suppliers' improvement plans 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.

Having updated our Supplier Code in 2020, we have continued our programme of audits that are targeted at suppliers that have a medium or high risk profile. We have implemented a system through Bureau Veritas that tailors audit frequency to supplier performance in the audit. Since we started this programme in 2021, 322 audits have been completed with 92% being rated good or acceptable. Of the 8% where improvement is required, or significant risks have been identified, there are 3 suppliers where we are currently requiring urgent amendments to their practices, and if these are not completed we will delist the supplier.

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. 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 or, in cases where we are not satisfied with the results, the relationship is terminated. Previous audit recommendations are reviewed by Bureau Veritas at the next site audit.

Staff training and capacity building

During 2022, 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 2022, we once again rolled out our mandatory compliance training programme on a new online platform, with all relevant employees being required to complete the mandatory training on the new platform. All wired employees (meaning those 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, Honduras, Bangladesh and India. 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. 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.

As part of the online training, we have developed and released a specific modern slavery module. This training aims to give all of our employees an understanding of what modern slavery is, how to spot it (including the 11 indicators of forced labour set out by the ILO⁸), what to do if found and how to prevent it. The online package, available in 11 languages, was rolled out in June 2022 to all our senior employees and those with externally facing roles, and required those taking the test to score 80% in order to pass. The training was delivered using information slides, multiple choice quizzes and a short examination to test each employee's knowledge. The training was well received by our employees and feedback indicates that the training has reinforced the importance of modern slavery awareness internally. Training was automatically assigned to new joiners who joined after the June launch date; new joiners are given 30 days to complete the training and additional support is provided where necessary. In December 2022, we launched the training to employees working at Texon and Rhenoflex.

In 2021 we commissioned our employee communications application – 'Coats Link'. Employees are encouraged to install the app on their personal mobile device meaning we have a way to directly communicate key messages to all Coats employees irrespective of whether they have a company email

⁸ International Labour Office, ILO Indicators of Forced Labour

address. In 2022 we added our full suite of Doing the Right Thing and ethics, compliance and controls training and awareness-raising materials to Coats Link, meaning they are always accessible to all of our employees. Coats Link has been very well received and we will continue to utilise the application to raise awareness around modern slavery during 2023.

Organisational effectiveness

In 2022 we did not have any whistleblowing concerns or allegations linked to slavery or forced or bonded labour (2021: 0).

All whistleblowing issues are investigated and resolved. A total of 91 allegations were raised through the whistleblowing channel in 2022 (2021: 98) with an upheld rate of 22% (2021: 32%) for investigations completed so far, with only one remaining outstanding at the date of this statement. The nature of the allegations received in 2022 included: (i) unfair employment practices, (ii) disrespectful behaviour, harassment and bullying, (iii) fraud, (iv) ethics code violations (but none in relation to slavery), and (v) health and safety. 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.

Future Plans

We understand 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. In the next 12 months we will:

- review our modern slavery strategy, policies and procedures and the effectiveness of our existing controls and reporting indicators in light of BSI Standards Publication BS25700:2022: Organisational Response to Modern Slavery, published in October 2022
- ensure that our existing group-wide modern slavery controls are embedded into the operations and supply chain of Texon and Rhenoflex
- review our reporting procedures in light of the Financial Reporting Council and Independent Anti-Slavery Commissioner Report on Modern Slavery Reporting Practices in the UK, published in April 2022.

As in previous years, we will prioritise our actions based on where we believe there to be the greatest risk. We will continue liaising with existing suppliers to support them on their sustainability journey, including modern slavery risk management. We will continue to collect key performance metrics from supplier audits to keep track of any instances of non-compliance and ensure that these are resolved and closed as soon as possible.

This statement will be updated annually to reflect our ongoing focus on this critical part of our business.



Rajiv Sharma

Group Chief Executive, Coats