

Taskforce on Climate-related Financial Disclosures

INTRODUCTION

The report has been prepared with reference to TCFD All Sector Guidance and Supplemental Guidance for Non-Financial Groups.

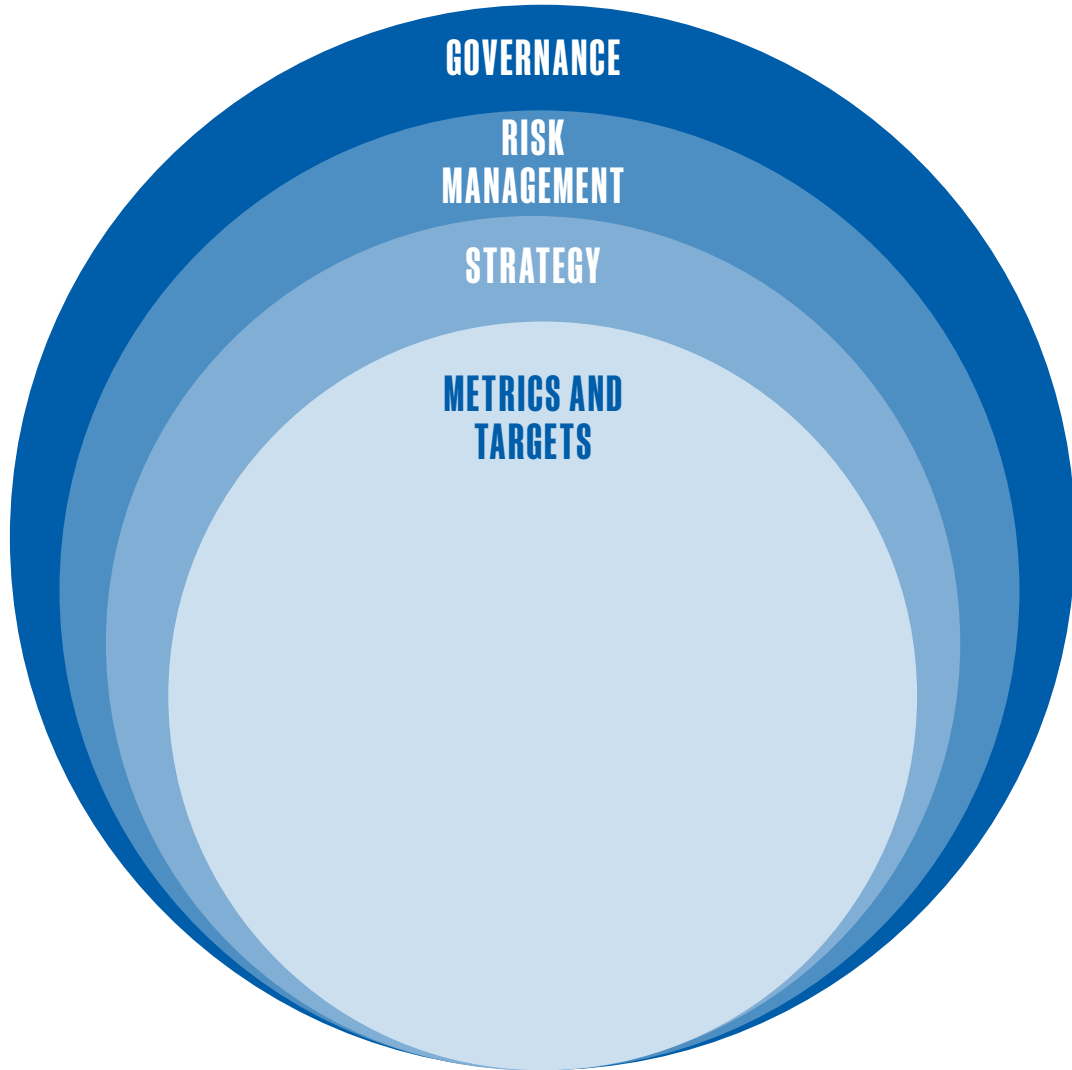
The Board has noted recommendations in relation to the mandatory disclosures of climate-related financial risk arising from FCA Listing Rule 9.8.6R(8). In complying with the requirements of the new Listing Rule on climate-related disclosures, we consider our disclosure to be consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures as detailed in ‘Recommendations of the Task Force on Climate-related Financial Disclosures’, 2017, with use of additional guidance from ‘Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures’, 2021. This report covers all divisions where Coats has operational control, but does not include divestments made during FY2023.

In this report references are made to other content in this Annual Report and Accounts (ARA) and in our Sustainability Report (SR).

The 2023 report covers our governance of climate change and demonstrates how Coats incorporates climate-related risks and opportunities into the Group’s risk management, strategic planning and decision-making processes, aligned to our net-zero ambition, which is described on page 185 of this report. Climate change is considered a principle risk to Coats as outlined in the Principle Risks and Uncertainties section of this report on page 52.

In 2023, we have set up a cross divisional and functional TCFD working group which supports our evaluation and assessments of physical and transitional climate risks and opportunities.

This year we have built on our review of physical risks with detailed bottom-up analysis, including the Texon and Rhenoflex footwear structural component businesses we acquired in 2022 and our two new production facilities in Mexico, Huamantla and Toluca. In 2023 we have further reviewed the base scenarios to ratify whether there have been any changes in the source physical data in the last year.



In 2023, we also conducted analysis of transition risks and opportunities with associated financial impacts for our new Footwear Division sites. This section of the annual report represents Coats’ third full set of TCFD recommended disclosures, covering the four pillars as shown in the table below.

Recommendation	Recommended disclosures	Reference
<b>Governance</b> Disclose the organisation’s governance around climate-related risks and opportunities	a) Describe the Board’s oversight of climate-related risks and opportunities	Pages 57, 63-65, 182
	b) Describe management’s role in assessing and managing climate-related risks and opportunities	Pages 49-50, 53, 182
<b>Risk management</b> Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation’s processes for identifying and assessing climate-related risks	Pages 57, 183
	b) Describe the organisation’s processes for managing climate-related risks	Pages 57, 183
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management	Pages 49-57, 182-183
<b>Strategy</b> Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	Pages 53, 183-185
	b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning	Pages 185-196
	c) Describe the resilience of the organisation’s strategy, scenarios, including a 2°C or lower scenario taking into consideration different climate-related	Pages 184-185
<b>Metrics and targets</b> Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 187
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Page 105
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 197

Taskforce on Climate-Related Financial Disclosures cont.

GOVERNANCE

The Group’s sustainability strategy, as well as the assessment and management of climate-related risks and opportunities, are supervised and ultimately approved by Coats’ Board of Directors.

The Board endorses material decisions on climate-related strategy, metrics and targets and expenditure, both capital and operational, and examines the connection between climate-related issues and broader company strategic and material operational issues through the sub-committees described below.

Our short- and long-term targets for climate change management are intrinsically linked to our Net-Zero target and science-based targets initiative reductions in Scope 1, 2 and 3 emissions in line with the Paris Agreement for 1.5°C. Our progress against these and against several underlying interim targets, which make up our Net-Zero transition plan, are monitored by the Board.

At management level, the Group Executive Team (GET) is responsible for climate-related deliverables, with the Board and relevant Board sub-committees receiving progress updates at every Board meeting (generally eight times per year). The GET is responsible for operational delivery of the Group’s sustainability strategy, including day-to-day management of operations and responsibility for monitoring detailed performance of all related aspects of the Group’s business.

Necessarily, this includes many elements of practical climate-related risk management. Two Board sub-committees have important roles to play in managing climate-related risks and opportunities: The Sustainability Committee is responsible for the sustainability strategy and governance, including on

climate-related issues, and receives updates on KPI performance from the GET including on mitigating actions related to climate change.

Our Group Chair, David Gosnell, chairs our Sustainability Committee, and Nicholas Bull, our Senior Independent Non-Executive Director is named as the Advocate for ESG, and also a member. Christopher Dearing, Group Sustainability Director is the Secretary. The Audit and Risk Committee monitors and reviews the effectiveness of climate-related risk management systems and relevant internal controls, and approves reporting statements, such as TCFD disclosures.

The GET reports progress on agreed actions directly to the Board, the Sustainability Committee and the executive Group Risk Management Committee (GRMC) as appropriate. The GRMC is responsible for formulating risk management strategies and monitoring and refining risk management processes and metrics for all risks, including climate-related risks specifically and convenes on a quarterly basis. The Sustainability Director is responsible for the delivery of climate-related risk assessment work which is reported into the GRMC quarterly as a short update with a full report to the GET annually.

Following the acquisitions of Texon and Rhenoflex in mid-2022 and the subsequent business reorganisation into three discrete divisions at the end of last year, we established a TCFD working group in early 2023 that consists of Senior Management from each Division and includes representation from corporate functions.

The working group works closely with the Group Sustainability Director, and is responsible for

contributing to the development of models for assessing the physical risks and impacts of climate change and determining the impacts of transitional risks and opportunities on our business.

Monitoring of progress on agreed actions is reported to the GET on a bi-monthly basis. The collection of climate-related data for the timely reporting of progress is largely achieved through an internal cloud-based reporting system that collects data from every operating unit on a monthly basis and is reported automatically to multiple internal stakeholders including the GET via dashboards.

The overall governance structure for climate-related risks and opportunities is illustrated in the attached graphic.

“

New Scope 1&2 emissions reduction targets were approved by the Board in December 2022, and linked to senior management Long Term Incentive Plans.”

David Gosnell,  
Chair





Taskforce on Climate-Related Financial Disclosures cont.

RISK MANAGEMENT

Coats is committed to managing the climate-related risks and opportunities that affect our business, our customers, our suppliers and our stakeholders. We have adopted a systematic approach to assess the potential impacts of climate change on our operations, markets and products, as well as the opportunities to enhance our resilience to climate-related change.

Our approach does not change on a short-term basis, as we consider climate change to be a long-term strategic issue that requires continuous monitoring and adaptation. Therefore, our approach to risk assessment is aligned with what we have reported in our [2022 TCFD report](#).



All physical and transition risk categories, as well as current regulatory requirements, are taken into account by Coats when we evaluate the climate-related risks and opportunities that may affect us. We look at how these risks may impact our own operations, or the Group’s upstream and downstream activities, and whether they may first arise in the short- (< 10 years), medium- (~25 years) or long-term (~ 50 years) time frames. These time frames are selected because they correspond roughly to the average remaining life of production assets (short-term), the typical life span of technologies (medium-term) and the possible plant renewal cycle (long-term), as well as aligning to the key milestones for climate science projections.

We use the existing Group Risk Tolerance Structure to compare the climate-related risks and opportunities with other Group risks and integrate them into the Group risk management framework. Since we take a scenario-based approach to assessing climate-related risks, the probability element of risk evaluation is largely intrinsic to the alternative scenarios and we focus mainly on building impact models for different risks. Prioritisation of climate risks is based on the overall impact across our 3x3 matrix of scenarios and time horizons.

We quantify risk in line with the following financial materiality:

Impact	Low	Medium	High
Financial	Impact or opportunity of <\$15m	Impact or opportunity of \$15-30m	Impact or opportunity of >\$30m

The Board reviewed the climate-related risk trend in light of the external environment and the actions being taken by the company, including delivery on targets during the year, and determined that the risk trend should continue to be noted as “stable”.

Further details of the Group’s risk assessment process are on page 52 of this Annual Report Principal Risks and Uncertainties.

Climate risks and opportunities are typically long-term, and the change is gradual. We continue to periodically review our scenario database to see if it is still in line with the latest scientific consensus and completed a further such review during 2023. We consider short-term mitigating actions for immediate action, and these address both risks that have a financial impact and those that don’t. There are other potential mitigating actions that can be actioned at a suitable time in the future depending on how climate change develops compared to our scenarios. The immediate agreed mitigating actions are reported to the GRMC on a quarterly basis and



also form part of our company strategy and are built into operational plans for the year. Our primary mitigating actions relate to continued focus on energy intensity reduction, transition to renewable sources of electricity, and materials transition to non-virgin oil-based raw materials, all of which are reported to the GET on a bi-monthly basis. We continue to wait for approval of our Net-Zero targets by SBTi, following their submission in 2023.

Climate change has been identified as a Principal Risk within the company’s risk management system. As a result, it is a permanent item for review and assessment at regular, quarterly GRMC meetings and the Board also reviews it as a risk on at least an annual basis. Through this mechanism, climate-related risks are fully integrated into the company’s risk management system. In addition to this, the Board reviews sustainability KPIs at every Board meeting including KPIs relating to climate issues.



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY

At Coats, our commitment to sustainability is integral to our strategic vision. Recognising the importance of climate-related risks and opportunities is paramount in steering our business towards resilience and long-term prosperity. The Task Force on Climate-related Financial Disclosures (TCFD) framework guides us in identifying, assessing and managing climate-related risks and opportunities that could have an impact on our future financial performance.

Our evaluation of the risks and opportunities covers all of Coats’ business units although some risks and opportunities are specific to particular divisions, and this is reflected in our assessment of impact magnitude. Through 2023 we have incorporated our footwear structural components acquisitions made in 2022 into the analysis, and this is included within the scope of this report.

As in previous TCFD reports, scenario analysis has been used to improve our understanding of the behaviour of certain risks to different climate outcomes, which helps assess the resilience of our business to climate change. We selected three climate-related scenarios, based on the Shared Socioeconomic Pathways (SSPs) endorsed by the Intergovernmental Panel on Climate Change (IPCC) and used in the development of the Sixth Assessment Report on climate change. For all countries in which Coats has manufacturing operations the SSP base data used for the scenarios included population and gross domestic product

(GDP), and hence GDP/head and growth rate. To account for the non-linear impact of temperature on human productivity and hence GDP, which is not considered in the SSP data, we incorporated modelling work done by Stanford University which included country level GDP changes due to climate change impacts. In most cases this depresses the future GDP estimates as temperatures climb, but in some Northern hemisphere countries which have a colder baseline it increases the future GDP estimate.

This socioeconomic data is supplemented by World Resources Institute Aqueduct tool data and climate predictions from National Geographic models that are site specific to company locations, together with more detailed site level analysis where risks are identified. This allows us to track a wide range of site-specific measures across extended time horizons and under the different scenarios. This includes winter and summer temperature ranges, precipitation, water stress, water depletion, groundwater table decline, riverine and coastal flood risks and drought risk. This gives us a very comprehensive view of future climate impacts across our operations under the different scenarios and focussed on three time horizons.

A cross functional team works through the scenarios and timelines, and explores the potential impacts that they could have on the business. For each identified risk and opportunity a bespoke financial impact model is developed and updated annually as required.

CO <sub>2</sub> e emissions level	SSP used	Scenario name	Global Temperature increase over pre-industrial levels		
			2030	2045	2070
Low	SSP1	Sustainability ‘Taking the Green Road’	1.47°C	1.56°C	1.49°C
Medium	SSP3	Regional Rivalry ‘A Rocky Road’	1.52°C	2.03°C	2.91°C
High	SSP5	Fossil-Fuelled Development ‘Taking the High Road’	1.60°C	2.25°C	3.50°C

The three scenarios we built are outlined in the table at the bottom left of this page.

The physical impacts on our operations and supply chain are modelled for each of these scenarios, with evaluation conducted on the risks and opportunities that might occur, focussing across 2030, 2045 and 2070 time horizons. The rationale for selection of these time horizons is as follows;

**2030:** this aligns with our near-term transitional strategy.

**2045:** this aligns with our medium-term horizon and is broadly aligned to our Net-Zero commitment and is at the longer end of our machinery asset lifespan. We also see clear divergence of physical climate impacts across the different scenarios at that point.

**2070:** is considered our long-term horizon which is beyond the lifespan of our current asset base, and allows us to model the long-term impacts. As a company with a heritage of over 200 years, it is important for us to look far ahead to understand

issues that may impact the long-term viability of the company, even beyond the life of our current asset base.

Our identified transitional risks and opportunities generally relate to our low carbon scenario and have a greater short-term potential impact, whereas our identified physical risks are significantly greater in the high carbon scenarios with an increase in their potential impact over time. The materiality of risks and opportunities has been determined by considering the financial impact, the level of future certainty and the relationship of the impact to the life of any impacted assets.

The scenarios and resultant financial models have undergone an in-depth independent review by our internal finance team in 2021, with follow-up reviews conducted on new work conducted in 2022 and 2023, as well as on any changes to the models and assumptions.

Further details are outlined on the following pages.



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

Risks and opportunities matrix

						Impact			
						Opportunities	Low	Medium	High
Summary of our most material risks and opportunities						Risks	Low	Medium	High
						Potential materiality			
TCFD category	Potential financial impact		<10 years (short-term)	~25 years (medium-term)	~50 years (long-term)	Mitigation and strategic response		Related Metrics and Targets	
<b>Transition:</b> Current and Emerging Regulation	<b>Risk 1:</b> Introduction of carbon taxes leading to increased energy prices	SSP1	<div></div>	<div></div>	<div></div>	The strategy that the company has in place to implement its Net-Zero transition plan, means we continually focus on reducing the embodied carbon in our supply chain. Where possible the cost of increased carbon taxes will be passed on to consumers.		<b>Metric</b> Scope 1 and 2 GHG emissions (Tonnes)  <b>Target</b> 46.2% reduction in Scope 1 & 2 GHG emissions by 2030 from our 2019 baseline	
		SSP3	<div></div>	<div></div>	<div></div>				
		SSP5	<div></div>	<div></div>	<div></div>				
<b>Transition:</b> Market and Technology	<b>Opportunity 1:</b> Growth in light-weighting products in transport, energy and telecom infrastructure markets, enabling significant increase in market share, given our competitive advantage both from product and an operational sustainability perspectives.	SSP1	<div></div>	<div></div>	<div></div>	Investment in technology and product development is already covered by our Research and Development plans by 2030.			
		SSP3	<div></div>	<div></div>	<div></div>				
		SSP5	<div></div>	<div></div>	<div></div>				
<b>Transition:</b> Market, Technology and Reputation	<b>Risk 2:</b> Declining sales due to shifting customer sentiment towards more environmentally friendly product options.	SSP1	<div></div>	<div></div>	<div></div>	The strategy that the company has in place to implement its Net-Zero transition plan means we continually focus on reducing the embodied carbon in our supply chain. We work closely with brands to ensure new products are designed to meet changing customer requirements.		<b>Metric</b> Scope 1, 2 & 3 GHG emissions (Tonnes)  <b>Target</b> – 46.2% reduction in Scope 1 & 2 GHG emissions by 2030 from our 2019 baseline.  – 33% reduction in Scope 3 emissions by 2030 from 2019 baseline.	
		SSP3	<div></div>	<div></div>	<div></div>				
		SSP5	<div></div>	<div></div>	<div></div>				
<b>Transition:</b> Market	<b>Opportunity 2:</b> Increased market share with apparel and footwear brands for thread and footwear structural components.	SSP1	<div></div>	<div></div>	<div></div>	Delivery of targets on operational sustainability metrics viewed favourably by brands.			
		SSP3	<div></div>	<div></div>	<div></div>				
		SSP5	<div></div>	<div></div>	<div></div>	Particular focus on emissions reduction and material transition and in both cases we have strategies in place to meet expectations.			



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

Risks and opportunities matrix cont.

			Impact				
			Opportunities			Low	High
Summary of our most material risks and opportunities			Risks			Low	High
			Potential materiality				
TCFD category	Potential financial impact		<10 years (short-term)	~25 years (medium-term)	~50 years (long-term)	Mitigation and strategic response	Related Metrics and Targets
Transition: Regulation and Technology	Risk 3: Inability to source sufficient renewable energy to meet emissions reduction targets.	SSP1				We consider this risk to be largely remediated by our current plans for transitioning to renewable electricity including reducing reliance on the grid through solar panels as well as the use of renewable energy contracts where available.	Metric % renewable electricity  Target 100% renewable electricity by 2030
		SSP3					
		SSP5					
Transition: Regulation and Technology	Opportunity 3: Cost benefits from transitioning from fossil fuel generated to renewable electricity.	SSP1				Our commitment to transition to 100% renewable electricity by 2030 will deliver cost opportunities as well as delivering reductions in carbon emissions.	Metric % renewable electricity  Target 100% renewable electricity by 2030
		SSP3					
		SSP5					
Transition: Policy and Technology	Risk 4: Inability to source sufficient recycled raw material to fully transition to a low carbon product range and hence achieve the SBTi targets.	SSP1				Since 2020 we have increased the number of approved suppliers and worked with key suppliers to further the development of recycled polyester and other recycling plans for other raw materials.  Our newly inaugurated Madurai sustainability hub, working with our Shenzhen hub will accelerate materials transition with exclusive focus on building a pipeline of new sustainable materials spanning across recycled, renewable and bio based. Their work will involve close collaboration with key upstream supply partners as well as the key brands that we supply.	Metric % raw materials from non-virgin oil-based sources.  Target 100% of raw materials from non-virgin oil-based sources by 2030
		SSP3					
		SSP5					
Physical: Acute	Risk 5: Increase in flood damage risk, particularly in our Asian units presents a material risk to the business.	SSP1				Our robust business continuity plans which are regularly updated and refined will assist in ensuring that we have robust contingency plans in place.	
		SSP3					
		SSP5					



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

Risks and opportunities matrix cont.

			Impact				Summary of our most material risks and opportunities
			Opportunities	Low	Medium	High	
			Risks	Low	Medium	High	
			Potential materiality				Related Metrics and Targets
TCFD category	Potential financial impact		<10 years (short-term)	~25 years (medium-term)	~50 years (long-term)	Mitigation and strategic response	
Physical: Chronic	Risk 6: Disruption of water supply in some units.	SSP1	<div></div>	<div></div>	<div></div>	Plans are in place to gradually invest in further water recycling capability as one of our key sustainability goals and this will focus first on the high water stress units, so the remediation of this issue is now in progress. Contingency plans to relocate plants if required.	Metric % Water Recycling  Target 33% increase in water recycling rate by 2026 from 2022 baseline
		SSP3	<div></div>	<div></div>	<div></div>		
		SSP5	<div></div>	<div></div>	<div></div>		
Physical: Chronic	Risk 7: Extreme heat leading to possible need for plant relocation to ones with better temperature regulation.	SSP1	<div></div>	<div></div>	<div></div>	Detailed scenario modelling has generated robust business continuity plans which are regularly updated and refined.	
		SSP3	<div></div>	<div></div>	<div></div>		
		SSP5	<div></div>	<div></div>	<div></div>		

Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

TRANSITIONAL RISKS

Risk 1) Emerging Regulation: Introduction of carbon taxes leading to increased energy prices.

An increase in the scope and level of carbon pricing through new emerging regulations could impact both our input materials and conversion costs as the cost of carbon is factored into water, waste, transportation and raw materials. Our low carbon scenario assumes that carbon taxes will be one of the levers used to achieve rapid decarbonisation of energy and industrial produces and processes.

Our scenario models a high initial (short-term) tax and a drop in tax in subsequent time horizons. Under our low carbon scenario SSP1, these could be introduced in the coming few years, increasing rapidly through to 2030 after which we expect them to stabilise. Our high carbon scenarios, SSPs 3 and 5, don't envisage there being any carbon taxes.

We expect that the range of carbon taxes could be between \$90 and \$160 per tonne of CO<sub>2</sub>e under SSP1, and we anticipate that this would be applicable to our Scope 1 and 2 emissions. This range is derived from work conducted by Wood MacKenzie on the level of carbon pricing necessary to ensure global warming doesn't exceed a level of 1.5°C from pre-industrial levels and work conducted by the International Energy Agency for their Net-Zero Scenario.

We have not currently modelled the risk impact of carbon tax application on our upstream Scope 3 emissions. Whilst the risk impact associated with this would be high, we assume that cost increases would be passed on to clients thus lowering the risk impact to low-to-medium.

For determination of our 2023 financial impact related to Scope 1&2 emissions, we have re-calibrated the baseline of our emissions model to include the Texon and Rhenoflex footwear structural components businesses acquired in 2022, and we have also excluded emissions associated with business divestments made through the course of 2023.

Without remediation, and hence based on current Scope 1&2 emissions levels persisting, the potential for carbon taxes under scenario SSP1 would see an additional annual cost of between \$26 million and \$45 million by 2030.

Mitigation:

Coats remains fully committed to achieving our near term 2030 science-based targets for emissions reductions which are a pathway to us achieving our ultimate goal of Net-Zero by 2050. As part of these targets, Coats commits to reduce absolute Scope 1&2 GHG emissions 46.2% by 2030 from a 2019 base year. We also commit to increase annual sourcing of renewable electricity from 5% in 2019 to 100% by 2030. Coats further commits to reducing absolute Scope 3 emissions by 33% within the same timeframe. These targets demonstrate Coats' ambition to reduce its carbon footprint and exposure to carbon pricing, and to achieve a better competitive position in the low carbon economy than its peers.

Post-mitigation, where mitigation is taken as delivery of our science-based targets for reduction of Scope 1&2 emissions (reduction of Scope 1&2 emissions by 46.2% in absolute terms from a 2019 base year), this annual cost increase would range from \$14 million to \$24 million based on our above assumptions of carbon tax rates. We see the pre-mitigation potential costs remaining broadly constant through 2045 and 2070 while the post-mitigation costs would drop to immaterial levels by 2045 and beyond.

We will achieve our Scope 1&2 emissions reduction targets through two programmes. We will continue to deliver improvements in energy efficiency, through our very granular energy monitoring programme that allows us to analyse energy consumption down to machine level in key plants and gain insights that we can deliver to other units. We will also be switching our Scope 2 energy progressively to renewable sources. We will do this through a hierarchy of approaches according to the opportunities provided by the regulatory environment in each country where we operate. We will firstly support the creation of new renewable assets through direct engagement with on-site or off-site projects in partnership with energy companies. Where this approach is not possible we will support existing renewable assets by purchasing their energy. If neither of these approaches are possible we will support the renewable industry through the energy attribute markets. We recognise that regulatory environments around energy supply are constantly evolving and our approach is flexible to allow for us to optimise our approach as changes occur.



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

Risk 2) Market, Technology & Reputation: Declining sales due to shifting customer sentiment towards more environmentally friendly product options

Consumer awareness of their carbon footprint is continuing to increase and a growing desire for sustainable living is resulting in changes to demand patterns with an increased preference for lower embedded carbon products. Meeting this demand requires the increased use of recycled, renewable or bio-based materials with lower emission manufacturing processes.

Over the last couple of years, our teams have worked hard to reduce the impact of this risk by meeting supplier targets and standards of our key brands both in terms of emissions reductions and in the specification of the raw materials we use to produce finished thread and footwear structural component products.

Our materials transition strategy is geared towards moving away from use of virgin oil-based raw materials and thus reducing the embedded carbon in our products. This is heavily supplemented by the delivery of our energy transition commitments where we are making positive progress in migrating to renewable supplies of electricity. Continued focus on energy and water intensity reduction projects remains a core part of our utilities strategy, delivering further reduction to the carbon footprint of our products.

Mitigation:

In 2023 we have set a new near term target to reduce our Scope 1&2 emissions by 22% by 2026 from our 2022 baseline, keeping us ahead of our committed and approved science-based targets reduction trajectory. We continue to proactively engage with customers that are at advanced stages with their climate expectations and we ensure that our plans and targets are aligned with theirs.

In 2023 we inaugurated our Sustainability Hub in Maduria, India, where we will spearhead efforts to accelerate our transition to sustainable materials, ensuring delivery of our new 2026 materials transition target of 60% sustainable materials, which will lead to 100% transition by 2030. Staffed with post graduate and PhD expertise in textile engineering, this state-of-the-art facility is working in close collaboration with our Innovation Hub in Shenzhen, China, with external innovation partners and customers on development of highly innovative low carbon materials and processes. Their product development work is primarily focussed on progressing new recycled, renewable and bio-based materials which meet the stringent end-use technical requirements with step reductions in environmental impact.

Risk 3) Regulation and Technology: Inability to source sufficient renewable energy to meet emissions reduction targets.

Many of the countries in which we operate are still subject to energy market regulatory challenges which can make the transition to renewable electricity difficult or impossible at the moment. We assess this risk by considering the alternative

Mitigation:

Our mitigation strategy for this risk is underpinned by our current plans to transition to renewable energy, with a commitment to use 100% renewable electricity by 2030. We acknowledge that in some material countries (e.g. China, Turkey, Vietnam), the regulatory framework is not yet supportive of offsite supply of renewable electricity.

Our programme of installing onsite rooftop solar panels under power purchase agreements with energy suppliers will continue, however this will only ever constitute a fractional portion of our overall energy supply. Continued focus will be given across our facilities on delivering energy intensity improvements through actionable insights delivered from our increasing programme of smart energy metering which has been rolled out across multiple key manufacturing locations. Efficiency programmes for compressed air and steam generation have been key initiatives in this space, along with upgrades of machine motors through use of inverter technology.

cost of buying Energy Attribute Certificates (EACs) to cover our requirements where we cannot gain access to certified renewable energy itself. The potential cost impacts of sourcing EACs will continue, but we expect that the regulatory hurdles that lead to this requirement will have diminished substantially in this time horizon as more countries establish functioning renewable energy markets.

Where, due to regulatory constraints, we are unable to transition to renewable electricity in the required timeframe, we will meet our emissions reduction targets through purchase of EACs. The costs associated with this have been evaluated on a weighted basket of current EAC prices across a selection of our key facilities, and we consider the financial risk associated with this currently to be immaterial across all time horizons.

We recognise that prices for EACs, which currently have a wide range (from around \$0.32/MWh to \$3.5/ MWh and with a current weighted average of around \$1.25), might increase or decrease in the coming years and we will continue reviewing this risk in case an increasing price trend changes the risk profile.



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

**Risk 4) Policy & Technology: Inability to source sufficient recycled raw material to fully transition to a low carbon product range and hence achieve the SBTi targets.**

Our initial scenario analysis work in 2020 highlighted the supply of high tenacity recycled polyester fibre was constrained and was preventing us from achieving a faster transition from virgin to recycled polyester. Since recycled polyester has a roughly 40% lower emissions footprint than virgin fibre this is a risk in terms of achieving our emissions reduction targets. Currently, 100% of our recycled polyester comes from PET bottles as we require high-quality material for our products.



**Mitigation:**

In the last three years we have continued to increase the number of approved suppliers of recycled polyester and currently there is no supply constraint on our growth of recycled product sales, and the growth is dependent on customer dynamics. With the aid of external consultants, we have also established that there are a large number of projects underway to increase the supply of recycled polyester for the textile industry. These include research into biomaterial alternatives to polyester. Their detailed analysis has led to the conclusion that supply will consistently exceed demand beyond 2025.

The 2023 inauguration of our new Sustainability Hub in Madurai will see acceleration of new materials innovation, supporting a move from recycled PET bottle feedstock to increasing use of feedstocks derived from post-industrial and pre- and post-consumer textile waste streams.

In the short-term (<ten years), therefore, this is not a material risk, and for longer term horizons the recycling and biomaterial supply opportunities will continue to grow.

PHYSICAL RISKS

We are committed to keeping our risk models up to date, and in 2023 have updated for a number of changes including updates on the Aqueduct flood risk tool and new acquisitions and sites. As a result of this analysis we have increased the flood impact over the medium term, under the SSP5 scenario to “high” from “medium”.

**Risk 5) Acute: Increase in flood damage risk, particularly in our Asian units presents a material risk to the business.**

The increased frequency and changing pattern of flooding from both riverine and coastal flooding presents a high risk to six out of 40 of our sites through safety-related evacuations or damage to equipment from water ingress. The impact would be a reduction in revenue and increased capex due to repairs.



**Mitigation:**

We have used the updated World Resources Institute Aqueduct tools to model water-related issues under our different scenarios at all of our manufacturing operations. Our updated risk analysis and local intelligence has resulted in the reduction of risk of four sites (Ho Chi Minh, Bogor, Dhaka and Chittagong) from the highest risk category, in our low carbon outlook, SSP1.

The exhibit below highlights the manufacturing sites with the highest riverine & coastal flood risk under scenario SSP1. Under the higher carbon scenarios (SSP3 & SSP5), as expected, we see an increase in both riverine and coastal flood risks across all short, medium and longer term time horizons, where the highest risk extends to a further seven sites.

Each business unit has a business continuity plan and our property acquisition strategy looks to avoid areas that could be susceptible to an increased risk of flooding, while maintaining a spread of regional and global supply chains further reduces the impact of local disruption. To date, there have been no significant incidents of water ingress or flooding, and, with our mitigating activities, we believe we are well placed to deal with any future increase in probability of flooding. Hence, we see ourselves as fully able to manage this risk with negligible impact.



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.





Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

**Risk 6) Chronic: Disruption of water supply in some units.**

The WRI Aqueduct tool has identified locations where the high level of water stress could potentially lead to future disruption of water supply, and our ability to operate in those regions. However, despite several sites being located in areas designated with higher water stress, our analysis concluded that there are no significant risks in the low carbon scenarios to water supply identified in the short to longer term time horizons. Our high carbon scenarios would see the risks of water stress increasing and extending to some major plants in our Pakistan units. Turkey, Egypt, India and Morocco are also plants with increasing water stress risks in higher carbon scenarios. The exhibit above highlights sites which are located in areas considered to have high water stress.



**Mitigation:**

The risk of water shortages leading to plant stoppages is difficult to quantify, so the approach taken here is to assess the capex requirement to upgrade the effluent treatment plants to recycle enough water to mitigate this risk. In 2023 we have increased our water recycling capacity through operational efficiency, and in 2024 we will be adding recycling capacity through reverse osmosis and ultra-filtration systems. In line with the targets under our Water sustainability pillar, we will continue to prioritise units which operate in areas with higher water stress levels, where we currently recycle 48% of our water, compared to 27% across all manufacturing sites. We target an increase in our water recycling rate by 33% in the period 2023 to 2026.

**Risk 7) Chronic: Extreme heat leading to possible need for plant relocation to ones with better temperature regulation.**

Global temperature is expected to rise in all three scenarios we studied. We have assessed our risk to extremes in heat, both in terms of severity and time frame under each scenario. The data suggests that the occurrence of high heat days (days over 35°C ) at a small number of units (Thailand, India and Pakistan) will increase in such frequency, with a greater impact in the high carbon scenario although not to the extent that would require plant relocations.

**Mitigation:**

Beyond 2045 there is lower visibility to high heat impacts, but it is reasonable to assume that the impacts will further increase in the high carbon scenarios. Contingency planning is in place for the realignment of plant capacities in the event of extreme weather event as are appropriate insurance policies.

**RISKS SUMMARY**

Physical risk mitigation from extreme weather are addressed at site level, in conjunction with up-to-date data modelling using the latest WRI Aqueduct data.

The short-term risks are principally transitional risks related to the company’s low carbon (SSP1) scenario. The strategy that the company has in place to implement science-based targets for emissions reduction, to transition to renewable electricity and to convert to recycled materials is a robust response to these risks. The medium to long-term risks are mainly physical risks more closely associated with higher carbon scenarios (SSPs 3 and 5).



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

OPPORTUNITIES

**Opportunity 1) Growth in light-weighting products in transport, energy and telecom infrastructure markets, enabling significant increase in market share, given our competitive advantage both from a product perspective and an operational sustainability perspective.**

At Coats we aim to reduce the carbon footprint of our products by using lower carbon (or lower weight) products targeted at markets we have identified as high growth. For the transportation segment, our focus has been on the Electric Vehicle market, where lightweight components are critical to enhanced performance and to maximise range. Coats has developed a technology (Lattice) which allows for almost zero waste production of complex shapes, from textile materials that can be converted into automotive components. The initial use of this product is for underbody shields to improve aerodynamic performance and thereby increasing fuel efficiency. In addition, this technology is being validated in EVs, primarily in battery enclosures but we will also focus on other segments of the automotive market, like high performance sports cars, where reduced weight and a lower carbon footprint are key benefits.

For the energy segment, composite tapes are accelerating the conversion of steel pipes to lighter weight composite pipes improving their deployment times, durability and lifecycle costs.

We produce composite tapes for the energy markets. Known as Gotex Xtru, these tapes are designed to strengthen and improve the longevity



of flexible pipes used in the oil and gas industry, accelerating the conversion from legacy steel pipes with known corrosion problems to lighter-weight composite pipelines. The tapes can be custom made with a variety of high-performance fibres like carbon or aramids, coatings and high-performance plastics to suit the specific needs of the end use application.

For telecoms infrastructure, we offer a broad portfolio of products that enable the design of thinner and lighter fibre-optic cables which lower deployments costs and increases resilience to environmental factors. Coats has recently developed and launched StremX, an innovative product that has garnered considerable interest from fibre optic cable manufacturers. StremX has undergone comprehensive customer validations in 2023, confirming its ability to effectively replace aramid strength members traditionally used in aerial cables. This substitution not only maintains performance

but also results in substantial cost savings. In one example, partial substitution of aramid yarns in a 12-fiber cable design with a cable span of 80 meters with StremX, enabled a 35% cost reduction for the cable manufacturer. In addition, thinner lighter-weight cables can also be designed leveraging the superior mechanical properties of StremX.

The potential additional operating profit in 2030 from the growth in this product segment ranges from around \$22 million to \$33 million. This comes from growth in sales of our light-weighting products, mainly for the telecoms and energy markets. Looking beyond 2030 at this stage is difficult, but continued growth in these segments will continue to be an opportunity.

**Strategy to realise opportunity:**

Coats is exploring this opportunity through several initiatives and continued investment in R&D, and new product development through the Coats Innovation Hubs in the USA, Gotex (Spain) and Turkey which allow us to develop new products in collaboration with customers. We anticipate achieving this growth minimal capex or using an asset light model, leveraging manufacturing partners and supplier relationships where possible. In 2023 we invested in our state-of-the-art extrusion line in Gotex to produce composite tapes for the energy markets, and on the back of this we are seeing commitments from customers for future supply contracts. We launched StremX in 2023 as a cost-effective alternative strength member for fibre optic cables which has enabled the design of thinner and lighter cables receiving multiple OEM specifications through the course of the year.



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

Opportunity 2) Increased market share with apparel and footwear brands through our commitment to reduce emissions.

We expect to gain market share with our brand customers as we continue to focus on their environmental commitments and work with our suppliers to ensure that they have clear transition plans towards Net-Zero in 2050. This expectation is underpinned by the trend of more governments following the UK in establishing Net-Zero targets and implementing regulations on emissions, as well as consumer preference continuing to shift to more environmentally friendly products.

We expect that some of our leading brand customers will increase their market share as they have clear environmental standards mandated for their upstream supplier base. Our Scope 1&2 emissions and the embodied carbon of our products are effectively incorporated into Scope 3 emissions of our downstream customers. For our customers to reduce their Greenhouse Gas emissions, they must therefore rely on their upstream suppliers.

Transitioning from virgin oil-based raw materials to recycled, renewable and bio based materials results in a net reduction in the embedded carbon of the products that we supply to our customers. As Coats’ raw materials meet requirements for production with low emissions through increased use of non-virgin oil-based materials, we expect to become a supplier of choice as more brands seek to reduce the carbon footprint of their supply chain to meet their own Net-Zero targets. In transitioning from virgin to recycled polyester feedstocks, we can expect to deliver up to 40% reduction in the cradle to gate embedded CO<sub>2</sub>e in our products.

Strategy to realise opportunity:

In the apparel & footwear sectors, we are growing faster than the market, in part due to our strong sustainability agenda. This reputation is enhanced by our commitments to transition to more sustainable thread and footwear structural component raw materials in line with our materials transition targets of transitioning to 60% non-virgin oil-based raw materials by 2026 and 100% by 2030. Additionally, we have committed that all our electricity and 70% of our total energy will be renewable by 2030.

In 2023 we revised our models for this opportunity, including incorporation of the additional market share opportunities that come from our 2022 footwear structural component acquisitions. The potential additional operating profit from this increased market share in 2030 ranges from around \$52 million to \$78 million.

We have developed strong innovation capability in all three of our divisions, with teams of post graduate and PhD scientists, engineers and technicians working across multiple locations on development of new sustainable products. Innovation and sustainability are inextricably linked – and when developing new products, incorporation of sustainable, lower carbon raw materials are front of mind on every development project. Key improvements in this manner have underpinned development of new thread products such as EcoCycle, EcoVerde and EcoRegen as well as development of new Rhenoprint powders for structural footwear components which contain

a groundbreaking level of 70% recycled polymers and newly impregnated materials with reduced content of virgin-oil based latex dispersions.

To achieve the growth anticipated from this opportunity, we expect an average annual capex cost to support this growth of between \$8 million and \$11 million up to 2030.

In addition our \$10 million investment commitment made at COP26 to be focussed on the development of green technologies and materials over the next four years continues. In 2023 the creation of a new custom built Sustainability Hub in Madurai, India was an example of spend from this commitment and will deliver new innovations in recyclable, renewable and bio-based products.

Opportunity 3) Transition to renewable electricity

In line with our 2030 commitments, we will transition to 100% renewable electricity by the end of this decade. As we transition from fossil fuel generated to renewable electricity through install of rooftop solar arrays and introduction of long-term PPA contracts for renewables supplies, we have seen reduction in the unit US\$ per kWh, and therefore see reduced overall energy cost as a transitional opportunity through to 2030. This transition will reduce our Scope 2 market-based emissions from 59,384 tonnes in FY2023 to zero in FY2030 at the latest.

Strategy to realise opportunity:

By investing in various renewable energy initiatives we can reduce costs and carbon emissions. We aim to secure long-term lowest cost contracts for renewable energy and use of Renewable Energy Guarantees of Origin (REGO) backed suppliers where available. These measures should help us achieve our target of 100% sourcing of renewable electricity by 2030.

The potential cost reduction in energy procurement to come from this transition in 2026 is between US\$5 million and US\$6 million



Taskforce on Climate-Related Financial Disclosures cont.

STRATEGY cont.

OTHER OPPORTUNITIES

We have identified two further opportunities, where we see the potential to reduce our emissions further. Our focus for 2024 will be to review the scenario impacts of these opportunities further and will update on our progress against these in our FY 2024 report.

Opportunity 4) Reduced costs from reduced waste and increased recycling, i.e., expansion of the circular economy.

New rules proposed by the European Commission highlight that all packaging in the EU must be fully recyclable by 2030. The new proposals set a target to reduce packaging waste by 15% by 2040 per Member State per capita through reuse and recycling. According to the Commission, the proposed rules would result in a 23 million tonne reduction in greenhouse gas emissions by 2030, reduce water use by 1.1 million cubic meters and reduce environmental damage costs by €6.4 billion.



**Strategy to realise opportunity:**

We have invested in systems to measure and manage waste and energy reduction and expect to provide more detailed analysis in coming years. We also focus on improving packaging recyclability and reducing its weight. For example with our structural components, Coats recycles c20% of sheet waste materials. We have targets to increase the sale of recyclable material and for internal waste reduction. Additionally we aspire that by 2030 all our products will be made completely independently of new oil-extraction materials like polyester and nylon. Although our products constitute only c1% of the weight of the final product, we contribute to the broader goal of making the textile industry more circular, through our bio-based set of products and other products that support the recycling of garments at the end of life. Examples of this include Ecocycle, which is a water dissolvable thread at 95°C, with which we are currently working with stakeholders to upscale usage.





Taskforce on Climate-Related Financial Disclosures cont.

SUMMARY OF RISKS AND OPPORTUNITIES

Our TCFD working group have analysed and attempted to quantify the impacts of climate-related risks and opportunities in financial terms under the three outlined scenarios and short, medium and long-term time horizons. When taken in aggregate, we conclude that our risk mitigation strategies, sustainability strategy, and ambition make our business resilient to climate change.

Taking in the impacts associated with our new acquisitions in our 2023 analysis, our overall assessment continues to indicate that the opportunities are of the same broad order of magnitude as the risks in the short-term and are linked to the same scenarios and are therefore considered well balanced. The higher carbon medium and long-term physical risks are higher and we will continue to assess further opportunity areas to be able to comment on the longer-term balance in due course.

We will continue to develop our analysis as new data is made available both internally and externally and we will continue to monitor our climate exposures and action plans through Coats’ risk management framework and governance structure. The opportunities identified continue to be developed in line with the company strategy and objectives.

Resilience:

Resilience is evidenced in most of our mitigation approaches described above.

We consider ourselves to be highly resilient to climate-related supplier disruption due to the breadth and geographic spread of our supplier base and the fact that we have alternative sources developed for all key raw material supplies. Having >30,000 customers spread across all geographies ensures a high level of resiliency from a customer perspective. Our single biggest customer impacts less than 10% of our annual revenues.

Additionally, as proven during the Covid pandemic, our global standardisation of ERP systems, master data and product ranges underpins a high level of resilience should any one of our manufacturing units be impacted by extreme weather events. We have proven capability to transfer production schedules from one manufacturing facility to another in a quick and agile manner, enabling customer supply impacts to be minimised.

Taken in aggregate, we conclude that our overall climate risk exposure is low and our existing and planned mitigation strategies mean the Group is financially resilient and strategically robust in relation to climate change. Any impact will be accommodated in our business-as-usual activity, so no fundamental change to business strategy or budgets resulting from climate change are likely to be required for the foreseeable future. In addition, there are no effects of climate-related matters reflected in judgements and estimates applied in our financial statements.





Taskforce on Climate-Related Financial Disclosures cont.

METRICS AND TARGETS

Coats has considered TCFD guidance for relevant metrics and has included those that are appropriate for our business. Assets-at-risk is not considered a relevant metric given our analysis of risks, and Coats has not determined yet whether an internal carbon price strategy would add value to our management of climate-related risk.

Coats monitors and reports on Scopes 1, 2 and key Scope 3 greenhouse gas (GHG) emissions on a regular basis as well as energy consumption and intensity. We calculate Scopes 1, 2 and 3 emissions in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, and disclose separately here in our Annual Report on page 42 and, in more detail, in our [Sustainability Report](#). Senior management remuneration is linked to key sustainability targets including ones related to emissions reductions and details on these can be found in the Remuneration Report on page 91.

At the end of 2022 we set new ambitious sustainability targets for delivery across the 2023-2026 time horizon. By 2026, we have targeted to deliver a 22% absolute reduction in Scope 1&2



emissions from our 2022 baseline, which will take us well beyond the required trajectory for delivery of science-based target emissions reductions by 2030. On a monthly basis we measure the energy source mix and the amount of certified renewable electricity within that. We also measure energy and water intensity metrics as these both contribute to Scope 1&2 emissions reductions.

Our principal metric for managing Scope 3 emissions is the overall transition from virgin oil-based raw materials to sustainable raw materials. At the end of 2022, we set an interim target to source 60% sustainable raw materials, by volume, by 2026 and have a longer term target to transition fully to sustainable raw materials by 2030. With the acquisitions of Texon and Rhenoflex in 2022, we have now fully included them in our 2022 baselines and they are now fully integrated into all of our climate-related metrics reporting.

Coats has developed near term science-based targets which have been validated and approved by science-based targets initiative. These address the full range of value chain emissions and we regard them as the most comprehensive approach to target setting for climate change mitigation. Committing to emission reductions of Scopes 1, 2 and 3 emissions in line with the 1.5°C Pathway up to 2030, and are crucial in managing the risk of not meeting customer expectations. Components of this target include;

- Committed to reduce absolute Scope 1&2 GHG emissions 46.2% by 2030 from a 2019 base year, and absolute Scope 3 emissions by 33% by 2030.
- Increase sourcing of renewable electricity to 100% by 2030.

- The company has developed and submitted for validation Net-Zero targets for our Scopes 1, 2 & 3 emissions for 2050. We expect to receive validation on these targets during 2024.

Additionally we have set near term internal targets to ensure delivery of our SBT targets as follows:

- Increase renewable energy to 70% by 2030.
- No new oil based materials by 2030 as we transition to recycled materials.
- Transition to 60% sustainable raw materials by 2026.

The Net-Zero targets submitted for validation are based on absolute contraction and abatement of emissions from Scopes 1, 2 & 3, and covering all GHGs apart from NF3 which is not relevant to Coats’ value chain, using cross sector pathways and together with neutralisation of a small element of residual emissions. Post-delivery of our 2030 near-term targets, by when we will have transitioned to 100% renewable electricity and have completed the material transition away from virgin oil based materials, the key elements that will require continued abatement are the heat energy used in dyeing, the emissions from energy used by our suppliers and the emissions from product and people transportation.

In 2023 we have conducted an extensive project to determine emissions from upstream transportation using generative artificial intelligence and this will set the foundation for us commencing to target high emitting transportation routes enabling transition to zero emissions transportation for land and sea.

The emissions from heat energy in dyeing currently come from burning fossil fuels to produce steam which is used to heat the water. We see two emission reduction roadmaps for this.

Our steam generating boilers will all require normal replacement before 2050, any replacement will be done with bioenergy or electric boilers. In parallel we continue to expand the use of dyeing technologies that do not require high temperature water. Our investment in Twine is part of this strategy. We do not, at this stage, anticipate any additional capital or operational costs for achieving Net-Zero that would not occur anyway in terms of asset replacement cycles.

Full details on the progress we are making towards these targets can be seen on the following pages of our [Sustainability Report](#).

- Emissions and science-based targets – Pages 24-27 and 31-35.
- Energy source mix, renewable electricity – Page 32.
- Energy Intensity metric – Pages 25 and 70.
- Water Intensity and water recycling metric – Pages 42 and 72.
- Material transition metric – Pages 15 and 26.

In 2023 we commenced preparations for public limited assurance on the performance of our core seven sustainability targets against their 2022 baseline. It is our intention to transition to public limited assurance at the point of reporting on our full year 2024 performance on these metrics.

The principal risks related to these emissions are ones that endanger delivering on the company’s targets for reduction in line with the 1.5°C Pathway and Net-Zero by 2050. The most material of these risks are inadequate opportunities to transition to renewable electricity and lack of reliable supply of recycled raw materials, and the company has robust programmes to manage these risks.