



PIONEERING A SUSTAINABLE FUTURE



ABOUT COATS

Coats is the world's leading industrial thread company. Headquartered in the UK, we have a presence in over 100 countries and digital platforms enable us to serve customers wherever they are located. We give employment to over 18,500 people across six continents, and are at home in some 50 countries which provides an unrivalled global footprint.

We work with nearly 30,000 apparel and footwear manufacturers and c.4,000 retailers and brands globally, as well as with over 7,000 performance materials customers. In 2018, our group revenue was \$1,415 million with operating profit of \$195 million.

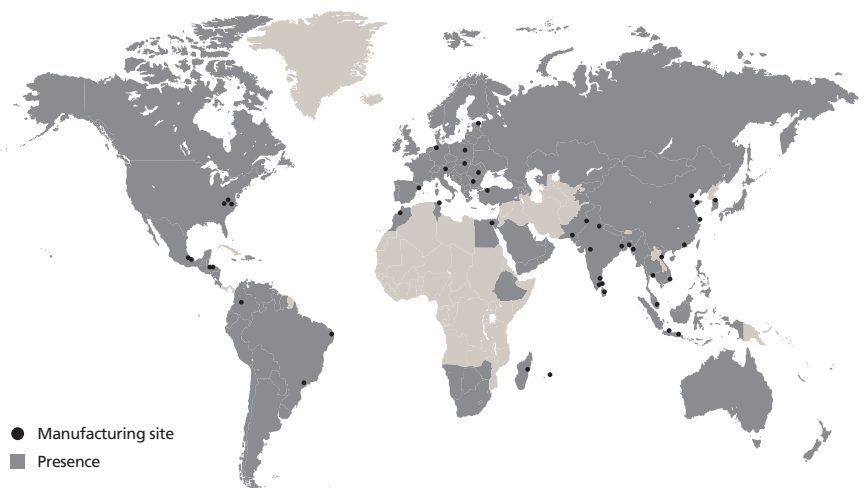
Revenue (\$m)¹



Operating profit (\$m)¹



¹ revenue and adjusted operating profit are from continuing operations, excluding NA Crafts, which was sold on 20/02/19. All other numbers in this report include NA Crafts for the full year 2018



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About this report

The information in this report covers the period from 1 January 2018 to 31 December 2018. Unless otherwise specified data relates to all operations owned and controlled by Coats Group Plc and joint ventures.

Further information about Coats Group Plc, our approach to sustainability and our performance can be found online at www.coats.com, including key policies available for download.

We continue to report in line with the requirements of the Global Reporting Initiative (GRI) and this year we have developed an additional tailored index for our investors offering more direct navigation to relevant Environmental, Social and Governance (ESG) information of interest to them.

Coats Group Plc was extremely proud to be included in the FTSE4Good Index in July 2018, the first time we were eligible for inclusion.



FTSE4Good

For more go online



www.coats.com/sustainability

WELCOME FROM OUR GROUP CHIEF EXECUTIVE



WE HAVE SET AN AMBITIOUS NEW STRATEGY THAT BUILDS ON THE GOOD WORK ALREADY DONE AND ACCELERATES OUR PROGRESS TOWARDS A MORE SUSTAINABLE FUTURE

Coats was founded during the first industrial revolution and was a pioneer of the modern textile industry. For over 250 years, we have been working with our customers to make products that touch most of humanity – whether through the clothes people wear or the products they use – forming the fabric of daily life around the world. Our longevity and success have been in large part due to our ability to respond to their needs, innovate and change our business when we need to.

We are currently in a period of significant change in the industry and within Coats. Many experts suggest that the manufacturing industry is on the cusp of a fourth significant shift that will revolutionise the way products are made – so-called Industry 4.0. Products will have shorter lifecycles, with more variants required to keep up with demand from consumers. This leads to shorter lead times and lower volumes per batch. Manufacturers are turning to technology for the solution, with higher levels of automation and connectivity – not just within factories but between suppliers and the whole value chain.

In response, Coats is undergoing an exciting transformation as we embrace the power of digitisation to connect more directly with our customers, become more productive, and offer our customers innovative, high quality products. However we recognise that this change cannot be at the expense of the world we live in. The climate is undoubtedly changing too, largely due to man-made emissions, and the demand for finite resources is rising sharply due to both a growing population and greater affluence in emerging economies. We need to, and others expect us to, be responsible and sustainable in the way we do business and the way we make our products.

So, that is why I am pleased to announce our new approach that places sustainability at the heart of our transformation process and decision making. I firmly believe that this bold step for Coats will play an important part in our future growth and our commercial success. It's much more than just doing the right thing in the communities where we work or protecting the environment near our factories. It's about enhancing our business and creating new opportunities to be more efficient and to innovate, developing better products and building stronger relationships with our customers, investors and stakeholders.

Coats is aligned with several customers on the importance of making sustainability central to the strategy of the organisation. With time the pioneers inspire others in the industry and create a movement. As our customers look for new value propositions we can grow with them by creating new categories and markets. Our investors value this growth, as well as the protection of their investment as we manage the social and environmental risks faced by a global manufacturing business. And our employees are motivated and proud to work for a company that is innovative, well managed and takes its responsibilities seriously.

As we launch our new strategy, including a series of ambitious targets for the next four years, this report summarises the progress we have already made and our plans. And we are in a good position.

Last year, we made more thread using less water and energy. We invested in new technology that uses less of the precious resources available to us, while helping ensure waste effluent is clean and meets, and often exceeds, the legal requirements placed upon us.

We have further strengthened our management of health and safety, including the launch of our *Journey to Zero* goal, and continued the development of our leadership and management capability programmes, all of which has been supported by digitisation of our human resources management processes. Our 'doing the right thing' programme is well embedded and helps us to make sure all employees are aware of their responsibilities and the high standards and level of conduct we expect.

And sustainability is proving to be a spur for innovation as we develop new products, such as Epic EcoVerde, made from recycled post-consumer plastic bottles, and we work with our customers to create more sustainable products to our mutual benefit, and the benefit of wider society and the environments in which we live.

As we pioneer for a sustainable future, I am excited by the opportunities for our business and all its stakeholders.

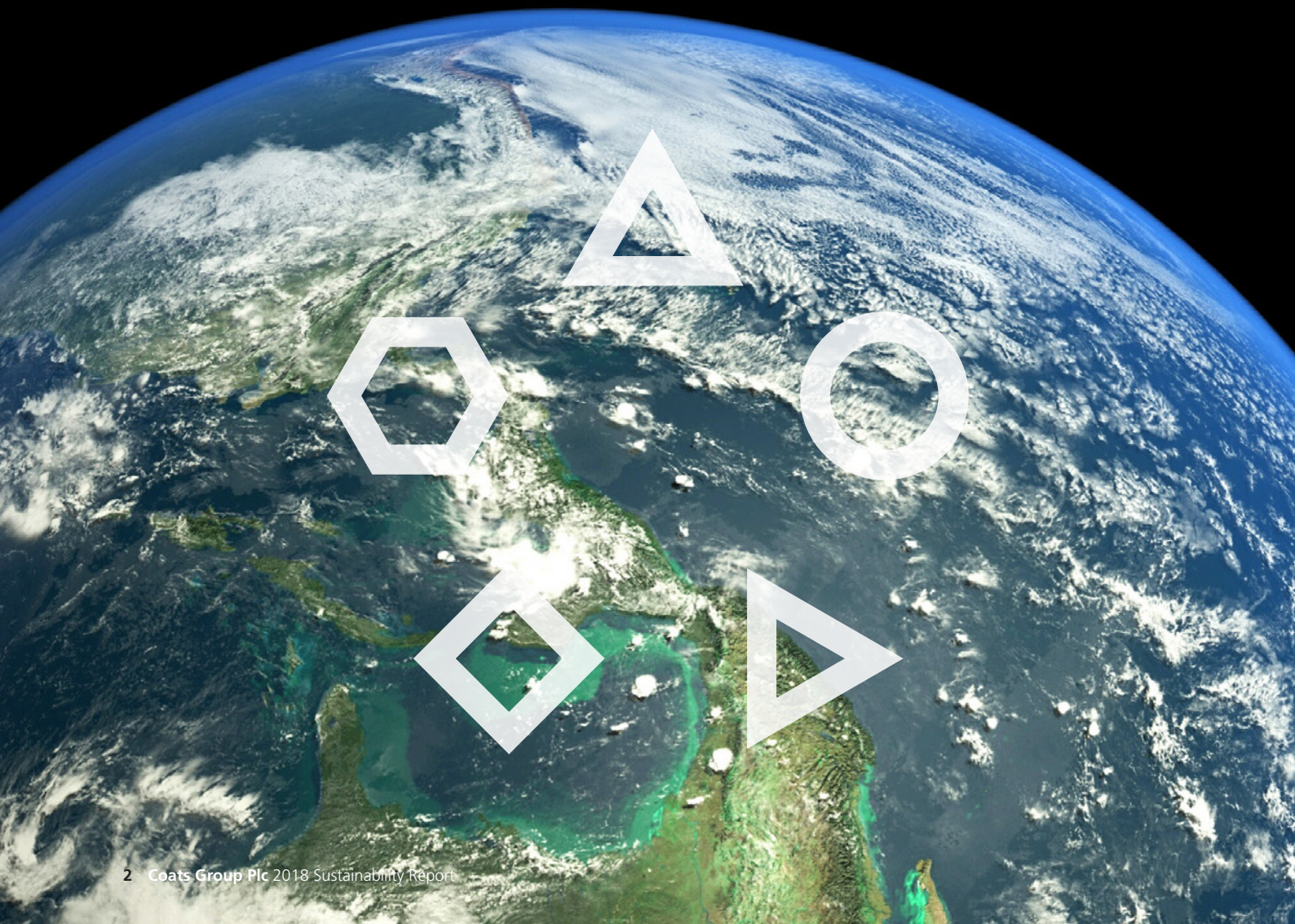
Rajiv Sharma
Group Chief Executive
1 March 2019

PIONEERING A SUSTAINABLE FUTURE

For many years, Coats has had a robust approach to sustainability, underpinned by a long-standing commitment to high standards of corporate behaviour and responsibility.

Last year we reported on the work we had done to review our key areas of focus for our sustainability programme. This included a global materiality assessment to identify the key issues for our business based on relevance to the achievement of our commercial goals and relevance to our stakeholders.

During 2018, we have gone further to develop an ambitious new strategy for Coats which we are proud to launch this year. Our strategy ***Pioneering a sustainable future*** focusses on five priority areas where we can accelerate progress, through the targeted investment of capital and resources.



The table below explains the key elements of our new strategy and what we are doing, making clear our support of the relevant UN Sustainability Development Goals and our targets.

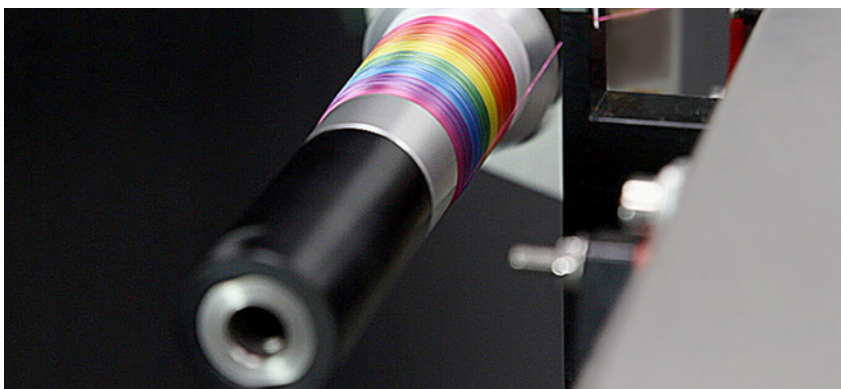
Pillar	Why is this a priority?	What are we doing?	UN SDG	Target
 <p>WATER</p> <p>Managing a precious resource wisely</p>	<p>Water is a precious resource. In some parts of the world as water scarcity becomes more apparent, then so do the risks we potentially face – not least competition for resources, higher costs, the effect on water quality, and the possibility that water shortages will limit production. These risks are often shared with the community around us.</p>	<p>Continuing to introduce new, more water efficient processes and technology (for example, accelerating the use of low liquor dyeing and water recycling).</p> <p>Investing in digital technology to help improve the efficiency of our processes.</p> <p>Improving our management processes to help identify excess use of water and to raise awareness.</p>		<p>By 2022, we will reduce the amount of water used per kilogram of thread produced to 66 lts/kg, a 40% reduction against our 2018 baseline.</p>
 <p>ENERGY</p> <p>Renewables for a sustainable future</p>	<p>The effects of climate change could have far reaching consequences and risks for our business, whether this relates to disruption to our supply chain, availability of raw materials or increased costs of energy. It is in our interests to reduce our greenhouse gas emissions and to play a part in combating climate change.</p>	<p>Implementing more monitoring and targeting activity to improve the energy efficiency of our operations.</p> <p>Identifying opportunities to save energy, through changes to technology or manufacturing processes.</p> <p>Investing or collaborating in new renewable energy, either to generate the heat required for our processes or to generate the electricity we need to power our business.</p>		<p>By 2022, we aim to be sourcing renewable energy wherever that is feasible.</p> <p>By 2022, achieve 10.4 kWh/kg in energy used per kilogram of product made, a 7% reduction against our 2018 baseline.</p>
 <p>EFFLUENT & EMISSIONS</p> <p>Working for a cleaner world</p>	<p>While we seek to optimise our processes, we will always generate some wastewater and some of this will be discharged to the environment.</p> <p>We have strict internal and external standards to which we adhere to protect our local environment and avoid damage to the watersheds on which ultimately both our business and the neighbouring communities depend.</p>	<p>Implementing online, real time monitoring of liquid waste effluent for sites discharging to the environment.</p> <p>Investing in the construction of new or upgraded wastewater treatments plant at our sites where required.</p> <p>Recycling water at appropriate sites and developing processes to eliminate waste water.</p>	 	<p>By 2022, we will build on Coats global standards by complying with the Zero Discharge of Hazardous Chemicals (ZDHC) effluent standards.</p>
 <p>SOCIAL</p> <p>Safe and sustainable workplaces and communities</p>	<p>Coats is a global business that operates in over 50 countries on six continents, with a wide and diverse range of cultures. We seek to create a culture of inclusiveness, honesty, and positive teamwork where each employee can reach their potential in a safe working environment.</p> <p>High ethical standards underpin the way we do business, as we build trust and ensure fair practices with our suppliers and customers.</p>	<p>Implementing fresh health, safety and well-being programmes, including our <i>Journey to Zero</i> goal.</p> <p>Develop our 'Doing the right thing' campaign to cover wider ethical and human rights issues.</p> <p>Applying our Leadership Capability Framework to all employees to enhance developmental opportunities, and training all employees in inclusion and diversity to enhance our culture of inclusion.</p> <p>Globalising our 'pockets of brilliance' so we have a larger impact in the communities we live and work in.</p> <p>Digitisation of our human resources management processes to enable more efficient and consistent approaches to people management.</p>	  	<p>By 2022, we will have 'Great place to work' or equivalent awards for all our key sites.</p> <p>By 2022 we aim to have all employees contributing to community activities.</p>
 <p>LIVING SUSTAINABLY</p> <p>Protecting our planet</p>	<p>Natural resources are becoming increasingly scarce. Environmental factors and population growth are increasing demand and putting pressure on the ecosystems of which we are a part.</p> <p>We follow the principles of the waste hierarchy to reduce, reuse and recycle our waste in an efficient and, ultimately, value creating way. This requires us to use resources efficiently and limit the disposal of waste to landfill.</p>	<p>Rolling out our waste management process action plan across our operations.</p> <p>Developing new products using recycled materials or that can be reused or recycled by others.</p> <p>Working with our customers and suppliers to help them improve the sustainability of their products.</p>		<p>By 2022, we will reduce our waste to 6.8%, a 25% reduction against our 2018 baseline.</p> <p>By 2024, all our premium polyester threads will be from 100% recycled material.</p>



WATER

MANAGING A PRECIOUS RESOURCE WISELY

Without water we cannot, today, make thread. It is a vital and shared resource and we need to make sure we use it efficiently, particularly as water is scarce in some parts of the world.



Using less water for a brighter future

Coats prides itself on the ability to provide high quality threads that meet the specific needs of customers. This includes the colour. As anyone working in the textile industry knows, colour plays a crucial role in a product's success. From designer clothing to home furnishings to automotive, the latest trends can be defined as much by colour as by brand or product material. In 2018, we dyed over 174,000 different colours in nearly four million production batches.

Dyeing is one of the most important parts of the manufacturing process as we transform processed polyester, cotton and other materials from a functional material into one that enhances and completes our customer's final product. This process alone accounts for around 60% of our total water consumption.

Coats has long been a leader in dyeing technology in the textile industry,

constantly driving innovation to improve quality and efficiency, including, recently, through the introduction of low liquor ratio dyeing machines at some sites. Traditionally dyeing uses around 40-80 litres of water per kilo of product, resulting in the use of huge volumes of water. Our new machines have reduced this ratio to around 20-40 litres per kilo – up to a 50% reduction in water usage.

We are seeking to improve this even further, embracing developments in digital technology to enable our processes to be more specific and tailored to our customer's needs in the future, in a sustainable manner. By using digital printing technology, we aspire to be able to produce exact lengths and colours of thread, whenever or wherever they are needed. The Twine technology, in which we recently invested \$5 million, is based on waterless dyeing and will feature inbuilt colour software integrated with Coats ColourStitch.



LEADER'S VOICE

"Water is a precious resource and existential to our business. Without it we cannot make the threads our customers want. We are fortunate that in many parts of the world where we operate water is plentiful today, but in others it is not. And we know that changes in our climate may impact the availability of water that we, and the communities around us, need. Furthermore, water is a cost and so it is in our commercial interests to use this resource as sparingly as possible.

We will invest in new technology and ways to improve the efficiency of our processes, as well as implementing robust programmes of management and maintenance to make sure we are not wasteful. Our businesses are targeted to use less, and this is an important priority for Coats as we strive to make more thread, using less water."

Michael Schofer
Chief Supply Chain Officer

Water is a vital resource

Our approach to water management is multi-dimensional. We recognise the value of water for our business and for the communities in which we operate. It is a shared resource and so we must ensure that we use water conservatively and as efficiently as possible.

We are always looking for alternatives to using water to limit the impact on neighbouring communities, while working to reduce our own consumption and return what we do need to the natural environment after suitable treatment. In some cases, this includes recycling the water we extract so that it is reused in our manufacturing processes.

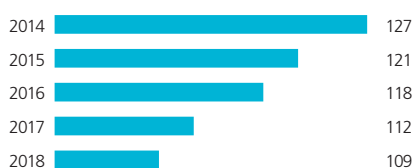
Understanding water risk

We have undertaken a high-level risk review of our operations to determine whether our businesses are in areas of high-water scarcity. The risk factors include the physical risk, regulatory risk, baseline water stress, flood occurrence and access to water. Fortunately, this review did not raise any significant concerns for our business, however, we appreciate that this may change in future years as the consequences of climate change manifest themselves.

Reducing water consumption

In 2018, we consumed 7.9 million cubic metres of water, which equates to 109 litres per kilogram of product manufactured. This is a 3% reduction compared to 2017 and continues the trend of previous years.

Water usage (litres per kg of dyed product)



Of the water we used, over 20% was recycled and reused, of the remaining amount required 43% was sourced from the local environment and 37% was supplied from municipal sources.

% water recycled



Investment in better technology

We continually seek to improve the efficiency and competitiveness of our manufacturing operations. Through investment in new machinery, equipment and processes we look to do things better, making more thread using less.

Improvements in our dyeing processes, described previously, have led to significant water savings as have investments in technology, such as reverse osmosis that enables us to achieve a high level of water recovery from process effluent. Some of our plants, in India and Sri Lanka for example, now recycle up to 95% of all the water they use.

More efficient operations

At a number of our manufacturing sites we have conducted detailed 'water balance' assessments that help us to understand and manage water and effluent efficiently; identify areas with greatest water and cost saving potential; as well as detect inefficient use and leaks quickly.

One of these sites is in Vietnam. In 2014, it was using 115 litres of water per kilo of thread produced (l/kg) but through careful monitoring and smart investment, this has reduced to 65 l/kg by the end of 2018. This is more than a 40% overall reduction in water consumption at this site. We are now focussing on further reductions and have invested in extensive water metering to understand precisely where water is used, and where inefficient use or wastage might be occurring.

At other sites, we are looking for innovative ways to reuse water required for non-essential manufacturing processes. For example, at our manufacturing unit in Sevier, US, we have started to recycle water discharged from the water-cooled air conditioning system saving 10% of the site's total water use equivalent to water savings of 68 million litres a year.

40%

**BY 2022, WE
WILL REDUCE
THE AMOUNT OF
WATER USED PER
KILOGRAM OF
THREAD PRODUCED
BY 40% AGAINST
OUR 2018 BASELINE**



ENERGY

RENEWABLES FOR A SUSTAINABLE FUTURE

The use of fossil fuels and the associated greenhouse gas emissions contribute to climate change. We have a responsibility to reduce our contribution and mitigate these risks.



Leading our approach to energy efficiency in Romania

Over the past two years Coats Romania has implemented a wide-ranging energy efficiency programme to fine tune its operations and processes to save energy and reduce greenhouse gas emissions.

The first step in the process was to introduce a new energy monitoring system. This enabled the detailed tracking of energy usage across the plant over time, as well as the related costs. This helped them understand where energy savings could be made and to develop a detailed action plan. As a result, the business has introduced a number of energy saving measures including:

- Installation of inverters on electric driers that adjust power consumption based on the temperature of the surrounding environment.
- Recovery of heat from process chimney flue gas and waste water.

- Optimisation of compressor operating air pressures.
- Installation of LED lighting and motion sensors in warehouses.
- Piloting of onsite solar renewable energy generation.

So far, this plant has managed to make consistent reductions in energy consumption so that it now consumes less than half the energy per kilo of production that it did when it was opened in 2004. Encouraged by the significant costs savings and associated greenhouse gas emissions, our team in Romania has recently been certified to the ISO 50001 global energy management standard to enable the business to continue to address the modern challenges faced by manufacturers in controlling rising energy costs and addressing climate change.

7%

BY 2022, ACHIEVE A 7% REDUCTION IN THE ENERGY USED PER KILOGRAM OF PRODUCT MADE AGAINST OUR 2018 BASELINE



LEADER'S VOICE

"In the recently published Global Risk Report, produced by the World Economic Forum, three of the top five global risks related in some way to changes in our climate. As a global manufacturing business, we have a responsibility to do what we can to reduce the contribution we make by using less energy from fossil fuels and investing in alternative, renewable forms of energy such as solar projects on-site where practicable, biomass boilers using renewable sources and purchasing a higher percentage of our power from renewable energy providers

Moreover, energy represents a significant cost to our business and energy prices continue to rise. For example, the costs of electricity have increased by some 45% across industrialised nations over the past twenty years. To remain competitive, we must continue to deliver operational excellence on energy while building resilience into our business by exploring future sources of the energy we need."

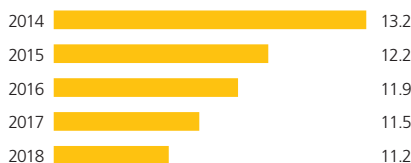
Kevin Finn

President, Business Operations

BY 2022, WE AIM TO BE USING RENEWABLE ENERGY WHEREVER THAT IS POSSIBLE

Using less energy...

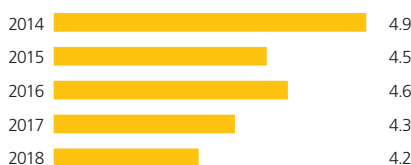
Energy use (kWh per kg of dyed product)



In 2018, we used 810 million kWh of energy to manufacture products. This equates to 11.2 kWh per kilo of production. Over the past twelve months we have reduced our energy consumption by 3% as we have invested in new technology and processes and implemented a series of energy efficiency programmes around the world.

... generating fewer emissions

Greenhouse gases emitted per unit of production (kg CO₂e per kg dyed product)



By using less energy and investing in renewable sources of energy, we have reduced the greenhouse gas emissions related to the fossil fuels and electricity that we use (so-called scope 1 and scope 2 emissions) by 3% from 311,000 tonnes in 2017 to 300,000 tonnes. And we have done this while increasing our production of thread, so the emissions per unit of production have reduced by 4% to 4.2 kilos per kilo of dyed thread.

Focus on energy efficiency

Over the past twelve months we have stepped up our focus on energy efficiency, finding ways to improve the competitiveness of our operations, improve our productivity and use less energy. We identified our top 20 energy using sites and held a series of energy focused workshops and audits, with the assistance of external experts in each market. These audits helped us to identify potential areas of savings – ranging from simple, low-cost measures to more significant investments – and formed the basis of an energy saving plan at each site to be rolled out over the next two years.

At some sites we went further. For example, in Mexico we held a week-long workshop involving a cross section of managers, engineers and production colleagues to undertake a 'deep-dive' to review how energy was used and where savings could be made. This activity identified 24 measures across the plant, and resultant plans are now being executed.

We have a constant programme of machinery replacement and maintenance, which gives rise to some improvements in our process efficiency. In other instances, we can improve energy use by taking a critical view of existing processes and often making reasonably simple adjustments. For example, in Bangladesh we use water jackets around our gas generators to help regulate their operating temperature and efficiency. Previously, we used water circulated through cooling towers to do this. In 2018, we changed this to use water from our dyeing process, that still offered the cooling for our generators, while increasing the temperature of process water – a win-win as we were able to improve the thermal efficiency of our gas generators, while speeding up the dyeing cycle and reducing steam needed to heat the water.

Investment in renewable energy

Renewable energy (% of total energy used in a year)



We have continued to review the cost-effectiveness of renewable energy generation at our sites, as well as the purchase of certified electricity from renewable sources. Over the past three years we have been able to maintain a constant level of around 30% of the total energy we use, of which typically 40% is generated from biofuels and the remainder is a combination of onsite generation of electricity and purchased electricity from renewable sources.

But our intention over the next three years is to increase this proportion significantly. We have adopted a diversified approach that enables us to be flexible depending on the type of renewable technology available, our business needs and the location. For example, in India we have invested in solar generation capacity for our plant in Ambas, as well as in our Patrick Yarns plant in the US, both of which provide us with a reliable and constant supply of electricity due to the plentiful sunshine, as well taking a more circular approach using other companies' waste to generate energy using discarded cashew nut husks to raise steam required to power our dye houses.



EFFLUENT & EMISSIONS

WORKING FOR A CLEANER WORLD

At Coats, we aim to ensure that the water we discharge is safe and will not damage the environment around our factories.

Closing the loop in Southern India

Our manufacturing facility at Ambas in Southern India has seen major investments over recent years to place it amongst the most advanced and sustainable sites across Coats. This has included a new synthetic dye house, a biomass-based steam boiler and a solar power plant, as well as a reverse osmosis effluent treatment plant.

One of the key features of this plant is that it can recycle 95% of the water it uses during the manufacturing process, with zero discharges of effluent to the environment. This process involves the filtration and cleaning of some 28,000 litres of water a day which is then reused. The plant uses a combination

of biological and physical processes to ensure the high quality of water used.

This has only been possible due to the introduction of a new biomass plant, owing to the high level of heating required during the process. Without this the amount of fossil fuel energy used would have been prohibitive, from both cost and environmental points of view. As the wastewater is heated, it evaporates leaving behind a waste residue while the clean water condenses for reuse. To close the loop on this process the solid waste or 'sludge' is collected and used by a nearby factory as a material for cement production.



LEADER'S VOICE

"Legislation is getting stricter and stricter around the world. The standards that we are required to meet are becoming ever more stringent. If we fail to meet these standards, then we risk penalties, fines and disruption to our operations, and most importantly damage to our reputation amongst neighbouring communities and with our customers, employees and shareholders.

But we are also keenly aware that employing clean production processes has benefits that extend far beyond just avoiding these risks. It can boost productivity, reduce costs and help further enhance our reputation. We do not operate in a silo, but as part of a multitude of local communities and ecosystems and we take extremely seriously our responsibility to protect the environment and watersheds we share. That is why we are committed to adopting the Zero Discharge of Hazardous Chemicals standards."

Stuart Morgan

Chief Legal & Risk Officer and Group Company Secretary

**BY 2022, WE
WILL BUILD ON
COATS GLOBAL
STANDARDS
BY COMPLYING
WITH THE ZERO
DISCHARGE OF
HAZARDOUS
CHEMICALS
(ZDHC) EFFLUENT
STANDARDS**

Consistent high standards across the business

More than two thirds of the water we use is ultimately discharged as waste effluent. This water is treated in several ways, either through our own waste treatment plants or through shared municipal facilities. Either way, we do all we can to minimise any impact on the environment from the effluent that we discharge.

We seek to comply with in-country legislation and discharge limits, but also work towards meeting our own internal global effluent policy – which in most cases is tougher than national legislation in terms of the limits we specify. This policy was developed to ensure that all our operations, regardless of location, will meet a consistent high standard in terms of the effluent they discharge. Meeting these standards requires our operations to measure and monitor the quality of effluent discharges in terms of several criteria, including oxygen demand, pH and metals content.

Investing in new treatment plants and monitoring

Over the past five years, we have spent or have committed to spend over \$20 million on new effluent treatment plants and technology. We have adopted a three-step approach, depending on the specific circumstances of our plants. Firstly, a review of the in-country requirements will determine whether we are able to employ biological water treatment, rather than a chemical process. Where possible we favour the former. Secondly, where an existing site is unable to meet the standards we will invest in the construction of a new water treatment plant. Recent investments include those in Honduras, Vietnam and India.

Finally, in some instances we share water treatment facilities with either other businesses or the neighbouring community. If these are unable to meet our standards, then we will invest in improving these facilities or build our own water treatment facilities to the mutual benefit of Coats and the community.

We have invested in new wastewater monitoring systems at most sites to give us continual, online measurement of effluent water quality. The new system automatically measures the levels of five parameters and sends the data to a live dashboard and an alarm is triggered if the level of any of the parameters gets close to, or above, the limits we have set. This enables us to monitor the levels of the parameters in real time and decide what action to take to ensure compliance with our high standards. Developing a way to prove our wastewater complies with the required standards 24 hours a day, seven days a week is a leading step in our industry.

Recycling our waste water

Over recent years, we have recognised that the best solution for dealing with wastewater is to not produce any at all. To this end, we have invested in water recycling facilities at some of our plants or for specific process within our plants – for example, within dye houses. In some cases, such as in China, we can recycle almost all the water we use. Other plants with recycling facilities include those in Sri Lanka and India, and Bangladesh is planned for the future.

Zero Discharge of Hazardous Chemicals

In 2016, we signed up to the Zero Discharge of Hazardous Chemicals (ZDHC) Programme. Through our commitment to ZDHC, we will be working with the industry to eliminate hazardous chemicals from not only our own operations but also the rest of the supply chain. ZDHC is a not-for-profit organisation with the vision to phase out hazardous chemicals and drive the widespread implementation of sustainable chemistry, related innovations and best practices in the textile, apparel and footwear industry.



SOCIAL

CREATING SAFE AND SUSTAINABLE PLACES TO WORK

We are operating in changing times, transitioning from an industrial to a digital world. We must adapt and evolve our culture, developing our people and skills to support this change.



BY 2022, WE WILL HAVE 'GREAT PLACE TO WORK' OR EQUIVALENT AWARDS FOR ALL OUR KEY SITES

Journey to Zero

In 2017, we launched #BeTheOne, a global safety campaign to raise awareness, prevent incidents and encourage colleagues to intervene when they see an at-risk act or unsafe condition. Building on this, we have now launched our *Journey to Zero* strategy that provides a clear roadmap for the long-term approach to health and safety. It focuses on the identification and management of risk, taking a much more proactive approach to safety management. While we are well on our way with 58% of our locations experiencing zero recordable injuries in 2018, our goal is zero injuries everywhere.

To facilitate this, we have implemented a new online safety management system that gives us greater visibility and increases the speed with which we can respond to activities or behaviours that may be unsafe. A very important aspect of the implementation process has been to encourage colleagues to be proactive

and report hazards before someone gets injured. On this basis, this year alone we have undertaken over 41,000 'improvement actions', largely based on feedback from colleagues, and conducted over 11,300 machinery specific risk assessments. With this kind of focus we have been able to reduce incidents in some areas quite dramatically. For example, incidents relating to the operation of forklift trucks has reduced by 25%.

In 2018, we also installed CCTV cameras in safety-critical manufacturing and distribution areas to gain better understanding of incident details. The use of CCTV has reduced average incident investigation time from 7 days down to 1.5 days. We are also planning to use the CCTV proactively to review and analyse job tasks and identify risks to provide greater safety for all of our shop-floor colleagues.

Last year, we provided over 28 hours of safety training per employee, 13% more than last year, including extensive NEBOSH and IOSH training, and are beginning to roll out ISO 45001, the new international standard for safety, to all our manufacturing sites. And in May 2018, we undertook our second health and safety climate survey and we were pleased to see that 91% of our manufacturing sites scored better than the industry benchmark.

There were no fatalities within our business in 2018. However, we have seen a modest increase in the number of injuries per 100 Full Time Employees (FTE), from 0.56 to 0.58. We believe this increase is because of better reporting of incidents, but we will monitor this closely over the coming months. However, we are encouraged that the number of lost days per incident has decreased dramatically from 14.7 to 10.6 suggesting the severity of incidents has reduced because of our more proactive approach.



LEADER'S VOICE

"The manufacturing world is changing, and we need to change with it to ensure we are competitive in the marketplace and to reach our aspiration to be a sustainable place to work. The new age of manufacturing is all about embracing digital technology and we need to develop new skills and ways of working to meet this challenge.

Our People strategy is focused on delivering our 'Connecting for Growth' global transformation programme and our employees are the core of our business. Their leadership, talent and commitment ensure we can achieve our aims and operate our businesses effectively and efficiently.

It is important that our employees feel safe, valued, respected and supported, and for the right conditions to be in place for everyone to reach their potential. As a global organisation made up of thousands of team members in nearly 50 countries around the world, we must harness the benefits that this diversity brings. A truly diverse workforce brings different perspectives, ideas, skills and experience, and a positive impact on employee engagement and business performance."

Monica McKee

Chief Human Resources Officer

Ensuring high ethical standards

We support the UN Guiding Principles on Business and Human Rights throughout all our operations. Our global policies uphold the requirements of the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core ILO Conventions, and the OECD Guidelines for Multinational Enterprises.

Our global Ethics Code, Business Code of Conduct, Supplier Code and our raft of policies covering the full range of ethics and compliance issues set out what we expect from our employees, our suppliers and our partners. We uphold the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015 and publish a statement on our website on what we are doing to prevent modern slavery in our business and supply chains.

All senior employees, those with externally facing roles and other appropriate employees complete regular mandatory ethics and compliance training. This year, we refreshed our online training and released a specific modern slavery module. This training, rolled out in 11 languages, gives around 4,300 of our employees an understanding of what modern slavery is, how to spot it, what to do if found, and how to prevent it.

Our 'Doing the right thing' programme, established in 2017, helps to embed our standards even further into our business. With the support of over 40 Ethical Culture Champions acting as points of contact in 32 countries across the world, our Group Legal, Group HR and Group Communications teams raise awareness of ethical issues and dilemmas, highlight instances of exemplary ethical behaviour, provide tailored presentations and training materials and support ethics-related discussions and initiatives at a unit level. Our second Global Ethics Day was held in October 2018 with the theme of #Ethics&Me and involved units across the Group organising events and activities including discussions, video productions, competitions and parliamentary-style debates on topical ethical issues.

Engaging our employees

It is important to us that our employees are fulfilled, are satisfied with their working environment and feel proud to work for Coats. We carry out a global employee engagement survey on an annual basis and in 2018, we were pleased to see that for the fourth year in a row, our engagement score has been maintained at 83%.

Furthermore, 87% said that Coats is a socially and environmentally responsible company when asked.

Employee engagement score (%)

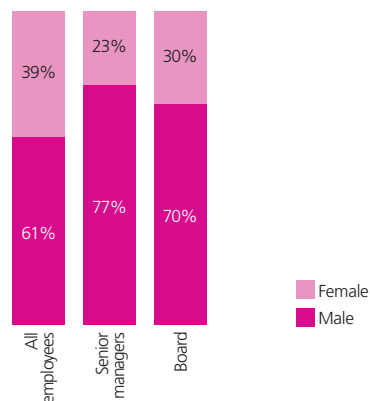


We were also proud that Coats' culture and performance are being recognised externally. During 2018 we received several awards for our activities, including being named one of the best companies to work for in Brazil, Indonesia and Vietnam.

Creating a safe, diverse and inclusive workforce

We aim to create an inclusive culture and strive to be an organisation in which our employees from diverse backgrounds and different identities can be confident and authentic at work. In 2018, we had 32 nationalities represented in our senior management group and 63 across our business.

Gender diversity (%)



Our Diversity and Inclusion (D&I) strategy is centred around four key pillars; providing education and capability building through training in inclusive leadership and unconscious bias; establishing unit-level D&I resource groups to share best practice; regularly measuring our demographics to track progress and establishing talent acceleration programmes to develop female, multicultural and millennial leaders of the future. Our D&I strategy is led by the Group Executive Team and through our Steering Group, which conducts regular global D&I Network calls. In 2018, the percentage of females at senior levels increased by 2% to 23.5%. This is a continued area of focus for us in 2019.



**BY 2022, WE
AIM TO HAVE
ALL EMPLOYEES
CONTRIBUTING
TO COMMUNITY
ACTIVITIES**

In March 2018, we celebrated International Women's Day under the global theme #PressforProgress. Both teams and individuals across the world identified actions that could be taken locally to support inclusion and increase gender diversity.

Safety is a top priority, but we also understand that the health and well-being of our colleagues inside and outside of work is important too. Over the year, we have placed greater emphasis on this area and have introduced several programmes across the business. For example, in Sri Lanka we ran a nine day programme of activities that included awareness-raising of non-communicable diseases and a mobile dental clinic; in China, we ran sessions on family relationships, parent and child communication, and anti-smoking; and our programme in Mexico, Viva Bem, includes workplace gymnastics classes to promote an active lifestyle, an employee 'Zen room' to provide a relaxation area for before and after work, and campaigns to increase employee's awareness about their health. We aim to continue to build both proactive health monitoring and healthy lifestyle programmes across all our sites.

Growing our leadership and delivery capability

Ensuring that we give people the opportunity to develop their career aspirations within our organisation while identifying, and preparing tomorrow's leaders is core to our sustainability aspirations.

We are embracing the digital age across our business and are implementing online tools to improve and standardise the way we support and manage our people. Our new online tool 'SuccessFactors' gives better visibility of our talent pool globally, and insights on talent utilisation, requirements, attraction, development and retention. We have developed a new global banding structure, which gives us greater flexibility and a global consistency in defining job roles and responsibilities.

Our Leadership Capability Framework includes two flagship training programmes, Management Capability Development (MCD) and Transcend, and in 2018 we have increased the numbers of females engaged in both. The MCD programme builds an individual's performance over eight management dimensions, including leadership, change management and team building. The Coats Transcend Leaders programme is an industry leading, best practice two-year programme for our senior leaders covering specific development activities such as coaching, digital learning, case studies and peer learning and also makes innovative use of social networking.

Working alongside our partners

As a supplier of yarns, threads, zips and related products to a range of manufacturing industries and retailers, we play a key role in the industry supply chain, providing a link between raw material producers and end users. We regularly engage with our customers in managing wider social and environmental issues associated with product manufacture.

It is vital that our relationships with business partners and suppliers are aligned with our own business principles and our approach to sustainability. Our Supplier Code, reviewed again in 2018, sets out of expectations on suppliers and adherence to which is a condition of supply to our business.

Our human rights risk assessment helps us identify the areas of highest risk both in our own business operations and in those of our supply chain. We also assess our supply chains to identify industry/sectoral risks as well as risks from their geographical location. Based on this assessment, we have a programme of engagement with suppliers, providing support and guidance on our expectations and compliance with our Supplier Code. This includes face to face workshops and supplier audits for 'high risk' suppliers.

BEING PART OF OUR LOCAL COMMUNITIES

The prosperity of our business is closely aligned to the health and well-being of the communities in which we work. We recognise that our investment in communities brings benefits in terms of our reputation, as well as the commitment and advocacy of our employees.

We pride ourselves on being a part of the surrounding communities, and our units are encouraged to develop close relationships with neighbouring people, business partners and community groups.

Our unit managers are responsible for developing their own Community Engagement Plans. Our objective is that all our locations (not just production units) should engage with their surrounding communities, primarily utilising the skills, time, energy and experience of our employees, as well as the resources available to them within their units.



Volunteers from our business

in Brazil have worked with over 550 members of the community to teach handicraft skills. The team developed specific courses covering crochet, tricot, embroidering, patchwork and patchapliqué, and sewing. Our aim is that with these new skills participants can make products that can be sold to help them supplement their income. As part of this, Coats also provided the materials needed for these courses.

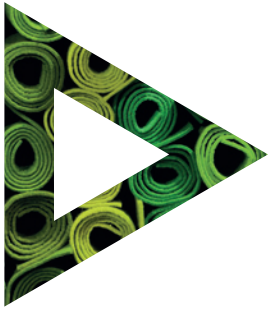


In Vietnam, Coats is supporting regional traditions and artisan skills in remote parts of the country. Working in partnership with Fashion4Freedom, Coats provides weavers from the Ta'Oi tribe who live in central Vietnam with excess thread which is then used to create traditional woven textiles. Not only does this help to preserve ancient traditions, but also supports the economic development of these communities. See the full film online.

In Bangladesh, the local team

has supported the restoration of natural habitat at the Bhawal National Park at Rajendrapur, close to the Coats factory. As part of this initiative, volunteers planted over 1,000 saplings of various medicinal and fruit-bearing trees to promote biodiversity, as well as create new recreational space for the surrounding community.





LIVING SUSTAINABLY

PROTECTING THE PLANET

To ensure growth, now and in the future, it is important that we use resources efficiently and explore innovative solutions. We will use more sustainable raw materials and reduce our waste.



Epic EcoVerde: The world's first 100% recycled premium sewing thread

Coats EcoVerde is a revolutionary product range, including Coats Epic EcoVerde and Coats Gramax EcoVerde, featuring 100% recycled premium sewing threads. As the only globally available 100% recycled range of premium cospun and textured sewing threads on the market today, EcoVerde offers the same proven level of performance as the industry's leading non-recycled threads.

The process begins with used plastic PET drinks bottles being collected from consumers, sorted, cleaned, chopped into flakes and then melted down and extruded into the fibre and filaments from which EcoVerde sewing threads are made. Because it consists entirely of recycled plastic fibres, Coats EcoVerde has a significantly lower environmental footprint than virgin fibres.

EcoVerde offers stronger, more durable, precisely engineered sewing with lower

repair rates, lower returns to manufacturer, lower irregulars, and increased productivity. Its property of greater abrasion resistance makes it even more relevant and the preferred choice for sewing. Furthermore, the low shrinkage property of these threads ensures no seam distortion after washing.

We also manufacture recycled metal and plastic zips, Opti M EcoVerde and Opti S EcoVerde. Furthermore, Patrick Yarns has been producing recycled polyester yarns and garments in a range of colours based on the source of the recycled material, thereby eliminating the need for any additional dyeing processes.

Through our EcoVerde product range, Coats plans to remain an integral part of the recycled thread industry and to work with industry to develop further innovations and collaborations.



LEADER'S VOICE

"In recent years, the issue of resource scarcity has risen up the global agenda. Demand for resources of all kinds is rising sharply due to both a growing population and increasing affluence in emerging economies. Unless business models change, growing scarcity and volatility will have a substantial effect on business profitability and resilience. The fact is that we simply cannot keep wasting the precious resources that we have available to us.

Most of the materials we use are synthetic, derived from oil. It is simply not acceptable for us to use this resource and waste it. We must be as efficient as we can be, getting the most out of the raw materials we use, and finding ways that we can reuse or recycle any waste that we do produce. Or finding someone else that can. It makes business sense to be more efficient and buy less virgin materials. Moreover, our customers are asking us about the origins and recyclability of our products as they strive to achieve their sustainability goals."

Adrian Elliott
President, Apparel and Footwear

Reducing our waste

In 2018, we began to roll out a new waste management system across the business. This requires each manufacturing site to identify their sources of waste, develop a detailed action plan to reduce this waste, and put in place processes to collect data and monitor performance.

To assist with the process, we have developed over 20 standard operating procedures (SOPs) for each part of the manufacturing process – for example, spinning and twisting, dyeing and finishing. Each SOP describes the key parts of each process, describing material inputs and expected yields of final product. This provides a useful guide for each business, providing key parameters by which to measure performance and efficiency.

In 2018, we generated 12 thousand tonnes of waste, excluding packaging waste received from our suppliers, but including all elements of our own waste, including solids extracted from effluent treatment plants. Of this waste, 76% is either reused or recycled and we will continue to increase this percentage. For example, Gotex have recently started supplying their glass fibre and aramid waste for use in other industries, such as furniture making, and reduced their waste to landfill by over 30% in 2018 as a result.

25%

**BY 2022, WE WILL
REDUCE OUR WASTE
BY 25% AGAINST
OUR 2018 BASELINE**

Raw materials

Last year, we used over 138,000 tonnes of raw materials. Around 96% of our products are made from synthetic, oil-based polymers, from our industrial threads through to our specially engineered yarns such as ripcords, technical yarns for fibre optic cables, medically approved threads and many more. We are increasingly exploring how these materials can be reused or recycled.

The remaining raw materials are derived from cotton and a negligible quantity from other naturally occurring materials or animal derived sources (<0.03%). We understand that there are some important social and environmental issues associated with the supply chains of cotton, and we are supportive of the key global partnerships trying to address these, including the Better Cotton Initiative (BCI).

Although we have very few product lines which derive from animal sources, we have developed a specific policy on Animal Welfare and through our new Supplier Code, expect high ethical business and employment standards across all our global sourcing operations.

We used 29,000 tonnes of packaging materials in 2018, of which 65% was from renewable sources (62% in 2017) and 63% was made of recycled materials (57% in 2017). Our aim is to continue to reduce the amount of packaging used to protect our products and to use more renewable and recycled materials.

Working with our customers

We recognise that our threads are only a small part of our customer's products. But because of our close relationship and technical expertise we often work with them to help them achieve their own ambitious sustainability goals.

Our recent acquisition of ThreadSol will accelerate the growth of its service platform leading to significant material savings for customers through improved fabric utilisation and reduced waste.

In our Performance Materials business we have developed advanced, high-performance thermoplastic products that are lightweight yet extremely strong for use in the automotive and aerospace industries. This can help reduce the weight of vehicles making them more efficient to run, but that can also be moulded into the right shape and size, so reducing waste during the manufacturing process. They are also recyclable.

We also work with customers to help improve the durability and longevity of their garments or products, particularly when used in stressful environments. For example, Coats Protos has been specifically developed to meet the exacting fire and heat safety standards in many industries including; aerospace, automotive and insulation. It is a 100% para-aramid thread which is stronger than steel and can withstand temperatures up to 450°C as well as extreme stress, making it an excellent choice for safety products and protective garments.

Looking to the future, we are also aware of the role that thread plays in enabling the deconstruction of waste garments for recycling, so we are exploring ways that we may be able to facilitate and speed up the reprocessing process.

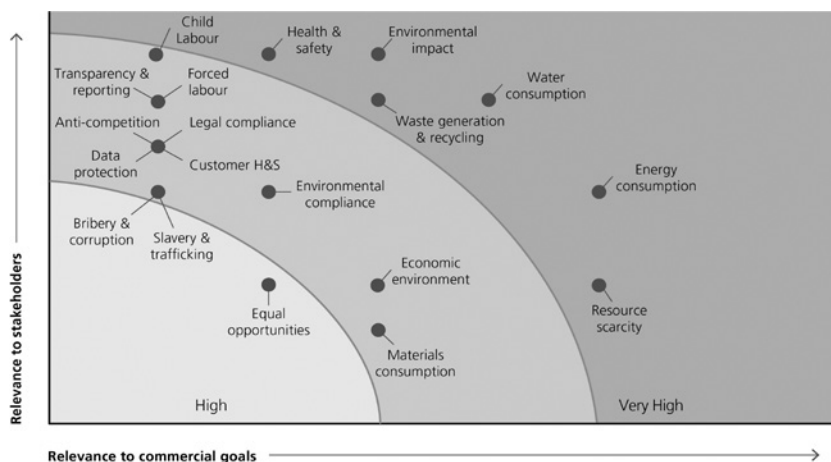
**BY 2024, ALL
OUR PREMIUM
POLYESTER
THREADS WILL
BE FROM 100%
RECYCLED
MATERIAL**

MANAGING SUSTAINABILITY

Sustainability is one of the foundations guiding all that we do. These foundations underpin our decision making and are an important part of our commercial success. This goes well beyond just doing the right thing in the communities where we work or protecting the environment near our factories, it's about enhancing our business and creating new opportunities to be more efficient, develop better products and build stronger relationships with our stakeholders.

The values that we subscribe to as a company are at the core of our sustainability programme. They are embodied in the five principles that describe the way we work: energy for change, respectful and inclusive, freedom to operate, openness and honesty and positive teamwork. Supporting these values are a series of detailed policies that help us to ensure we adhere to the high standards we expect of Coats, our colleagues and our business partners. These cover a broad range of issues, including our approach to taxation, our Supplier Code, our Modern Slavery Statement and our Environmental Policy amongst others. These are all available to download on our website at www.coats.com/sustainability

But we also know that in some areas our sustainability impact is particularly significant, or as a business we have particular knowledge or expertise that we can leverage. To help us identify these areas of potential focus and relevant priorities, we undertake a biannual review of our material issues. This assessment framework measures the relative importance of issues to our business and to our stakeholders, and the chart to the right illustrates those areas identified as important. This materiality assessment has informed our new strategy – *Pioneering a sustainable future* – and the five key areas of focus for our business over the coming four years.



Governance and management

The Chief Executive and the Coats Group Plc Board and the Group Executive Team have the ultimate responsibility for setting the direction, monitoring the performance and the long-term success of our sustainability programme.

The Audit & Risk Committee, comprised of Non-Executive Directors, oversees our approach to risk management and ethics and compliance and, together with the full Board, reviews specific issues in relation to both of these.

Our sustainability initiatives are led by representatives from our Group Executive Team, with support and co-ordination from the Head of Sustainability. They are also responsible for receiving and reviewing updates on progress and performance.

Sustainability is not a siloed activity at Coats, and so we have created a cross functional Sustainability Delivery Team (SDT) that brings together colleagues from across the business to provide the right mix of experience and expertise to implement our new strategy in an efficient and effective manner. We create distinct workstreams to focus on specific projects when required. Across the business, we also have a network of Sustainability Champions to advocate our work in this area at a country and site level.

Stakeholder engagement

We take account of stakeholder opinions when we develop our business strategy and our approach to sustainability. We connect with our stakeholders across many different channels at both a global and local level. Engaging and communicating with our stakeholders helps us to identify issues of importance to Coats. Our stakeholders include our investors, our customers – particularly the apparel and footwear industry and brands that buy our threads – our employees, the communities in which we live and work, regulators, suppliers and business partners, non-governmental organisations and the general public.

Each of these stakeholders places different expectations upon our business. We communicate and engage with them in a variety of different ways depending on what they want to know and the significance of their concerns. Our stakeholders and the way we engage with them is described in more detail on our website www.coats.com/sustainability

PERFORMANCE SUMMARY

The table below provides a summary of key sustainability performance data.

Indicator	Unit	2014	2015	2016	2017	2018
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WATER Managing a precious resource wisely

Total water used	Million cubic metres	8.3	8.3	8.2	8.0	7.9
Water intensity	Litres per kg dyed product	127	121	118	112	109

ENERGY Renewables for a sustainable future

Total energy used	Million kWh	858	833	829	823	810
Energy intensity	kWh per kg dyed product	13.2	12.2	11.9	11.5	11.2
% renewable energy used	%	22%	27%	29%	29%	28%
Total greenhouse gas emissions	Thousand tonnes CO ₂ e	322	305	319	311	302
Greenhouse gas emissions intensity	KgCO ₂ e/Kg dyed product	4.9	4.5	4.6	4.3	4.2

EFFLUENT & EMISSIONS Working for a cleaner world

% of water discharged as waste effluent	%	87%	80%	79%	77%	68%
Environmental prosecutions	No	0	0	0	0	0

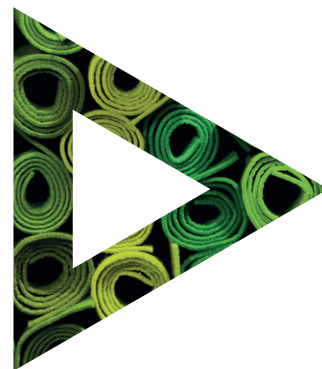
SOCIAL Safe and sustainable workplaces and communities

Headcount ¹		19,204	18,985	19,079	19,419	18,802
% female employees	%	40.2%	40.5%	40.2%	40.8%	39.3%
% female senior managers	%	18.6%	18.8%	21.1%	21.5%	23.5%
% female board members	%	12.5%	11.1%	22.2%	30.0%	30%
Employee engagement score	%	81%	83%	83%	83%	83%
Incident rate	Injuries per 100 FTE	–	–	0.56	0.56	0.58
Average days lost per reportable incident	Days per incident	–	–	12.4	14.7	10.6
Work related fatalities	No	0	0	0	1	0
Health & safety prosecutions	No	0	0	0	0	0

LIVING SUSTAINABLY Protecting our planet

Total waste generated	Tonnes	–	–	–	–	12,000
% total material waste	%					9%

¹ Headcount includes employees in JV operations.
Therefore these numbers do not reconcile exactly to the statutory headcount in the Annual Report.



FOR MORE INFORMATION ON OUR APPROACH TO SUSTAINABILITY

www.coats.com/sustainability

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