STRATEGY OVERVIEW

Strategy Overview

During 2022, to better align with the evolving ESG challenges and our stakeholder led materiality assessment, we have extensively reviewed our sustainability strategy.

There have been two principal triggers for this review. The first is that we have successfully completed the first phase of our strategy journey with the delivery of progress on our targets for 2022, and we now need to map out the next stage and ensure that it remains relevant and ambitious. The second trigger is that we purchased two businesses in 2022, Texon and Rhenoflex, which produce and supply structural components to the footwear industry. Since these businesses are working with different textile components to Coats we need to ensure that our strategy fully encompasses their business issues.

Having completed our biennial materiality assessment in 2021 we reviewed the latest ranking of key issues against our strategy. We concluded that all the key issues and target areas remain relevant but that there is a need to reprioritise issues due, in part to evolution of the external sustainability criteria and in part to the progress we have made in addressing issues in our business. We are therefore subtly revising our 5 pillar strategy to reflect these changes.

The roadmap set out to the right outlines our strategy to delivering our commitment to Science Based Target Initiative (SBTi) Net-Zero target in 2050 and our interim SBTi targets in 2030.

2026 OUR NEXT CHAPTER SHORT-TERM TARGET

- **22%** reduction in scope 1&2 emissions
- **60%** transition to recycled or bio materials
- **33%** increase in water recycling rate by 2026 from 2022 baseline
- **0%** waste to landfill
- **100%** ZDHC compliance
- **88%** GPTW© coverage
- **30%** Women in leadership roles

2030 OUR GOALS FOR 2030 ARE CLEAR AND AMBITIOUS

APPROVED SCIENCE BASED TARGETS WITH 2019 BASELINE THAT COMMIT US TO

- **46.2%** reduction in Scopes 1 & 2 emissions
- **100%** renewable electricity
- **33%** reduction in Scope 3 emissions

FURTHER TRANSFORMATIONAL TARGETS

- Zero products from virgin oil-based materials
- 70% of total energy from renewable sources
- Circular product and packaging solutions
- Increased positive social impact

2050 LONG-TERM TARGET

Net-Zero emissions in our value chain by 2050

Strategy Overview

OUR STRATEGY FRAMEWORK

Our materiality assessment, described in this report on page 63 is the basis for our strategy framework. The key issues of importance to our stakeholders and relevant to the delivery of our business strategy have not changed markedly, but the climate and people related issues have gained in profile in recent years and it is therefore right to fine tune our strategy framework to ensure that it is aligned to the needs of the business over the next stage of our journey.

ENERGY

Our processes rely on energy, mainly for kinetic and thermal purposes. Our use of energy causes emissions of greenhouse gases that contribute to climate change. Reducing emissions through more efficient use of energy and using less emitting sources of energy is crucial to combat climate change.

MATERIALS

The materials we use to make our products are largely oil based and are energy intensive in terms of upstream production.

They are our main overall source of greenhouse gas emissions. Transitioning to materials with lower inherent emissions, by moving to recycled or bio-based materials is a priority to combat climate change.

WATER

Some of our processes, especially dyeing, are intensive users of water. Many of our plants are in areas of water stress.

Ensuring that we are minimising the additional water stress that we are causing through our operations is important to other users and to the environment.

WASTE

We produce solid and liquid waste in our processes. Through all our processes we need to ensure that we recover as much material as possible from waste streams and that we are then ensuring that any residual waste product is dealt with responsibly and with the smallest impact on the environment.

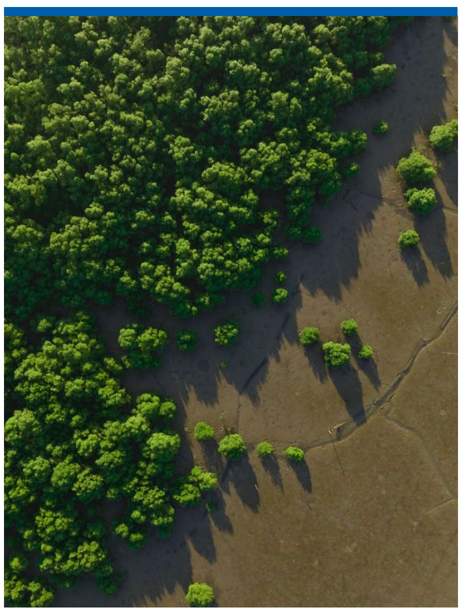
PEOPLE

Our employees, their families, our neighbouring communities and those in our wider value chain are all the people that are immediately touched by our business. We have a responsibility to them all and our policies, procedures and programmes are there to ensure that safety, wellbeing, fairness, equality, diversity and opportunity are part of that relationship.

Strategy Overview

Across this strategic framework we have identified the most important metrics to track us on our journey with the next short-term milestone being 2026.

Beyond 2026 we already have in place some aspirations for 2030 and our commitment to interim Science Based Targets for emissions reduction and our aspiration for net-zero in our entire value chain by 2050 which is currently being assessed by Science Based Targets initiative. These metrics and targets are shown in the table on the right.



STRATEGY PILLAR	2026 MILESTONE TARGETS			2030 ASPIRATIONS	2030 SBTi COMMITMENTS	2050 TARGET
	METRIC	2022 BASELINE	END 2026 TARGETS			
ENERGY	% reduction in Scopes 1&2 CO2e emissions	233m TONNES	22% REDUCTION	70% of energy to come from renewables	-46.2% in Scopes 1&2 emissions vs 2019 baseline	Net-Zero emissions in our value chain
MATERIALS	% volume free from new oil-extraction raw materials	24%	60%	100%	-33% in Scope 3 emissions vs 2019 baseline	
WATER	% of water to be recycled	25%	33% INCREASE IN RECYCLING RATE			
WASTE	No waste to landfill	1.96 k TONNES	ZERO TO LANDFILL			
	All effluent to meet ZDHC limits	92%	100%			
PEOPLE	% employees in units with Great Place to Work certification	86%	88%	90%		
	% of females in Senior Leadership positions	21%	30%	40%		

Strategy Overview

COATS AND THE SUSTAINABLE DEVELOPMENT GOALS

SDG	WHY IS THIS RELEVANT TO COATS, WHAT ARE OUR OPPORTUNITIES AND RESPONSIBILITIES?	OUR PRIORITIES AND ACTIONS	OUR GOALS AND INDICATORS, OUR DESIRED OUTCOMES AND IMPACT
1 NO POVERTY	We employ over 17,000 people in over 50 countries. Many families are dependent on us directly for their principal source of income and it is our responsibility to ensure that that income is sufficient to lift people out of poverty. We can also use our purchasing power to ensure that those in our upstream supply chain have the same opportunity.	Our principle focus has been on ensuring that all of our employees receive a Living Wage. To this end we have established a policy and calculation methodology, using external benchmark data to measure our remuneration packages. We have then taken action in any cases where we have found that the benchmark for a Living Wage is not achieved. Our work on ensuring a Living Wage is described on page 58 of this report.	Having established a robust methodology for our own operations, our goal is now to extend our focus to encapsulate our upstream supply chain by revising and enhancing our supplier code and ensuring that this is included in our supplier audit programmes.
3 GOOD HEALTH AND WELL-BEING	A large percentage of our manufacturing operations are sited in developing countries and in some locations we operate in communities where we are the principal employer. Our business is dependent on having motivated and healthy employees and our employees and their communities depend on us to provide safe and fair employment. Ensuring the health and wellbeing of our employees, their families and our neighbouring communities is therefore of mutual interest to us and our employees.	Our priority is that our employees and those working on our sites are able to return home safely each day and that their health is maintained or improved while working with us. We maintain a robust H&S programme that focusses on developing leading actions such as hazard identification, near miss reporting and frequent training to ensure that our incident rates are as low as possible. In addition we have recently launched a new programme to focus on wellbeing: 'Coats Cares' Our activities in this area cane be found in the following sections of this report, with page numbers: **H&S management** - 56 **Journey to Zero** - 56 **Commuting Safety** - 56 **Coats Cares** - 60	Our aspiration is obviously to have zero incidents for both workplace and commuting, but our goal is to reduce our incident rate each year. Every incident is fully investigated and remedial actions identified and implemented. We publish a broad range of leading and lagging indicators and ensuring that our leading indicators continue to improve is a principal lever to ensure that our incident rates continue to drop from the already very low levels that we have compared to our industry norm.
5 GENDER EQUALITY	Employing the highest quality employees is obviously good for our business. With a large employee population like ours that should lead to broad gender equality at all levels. At a global employee level our female:male ratio is 35:65, but at senior management levels the ratio is 21:79. At Board level the ratio is 44:56. This indicates that we are not yet succeeding in fostering female talent development and career opportunities throughout the organisation. This is a clear opportunity for us and it is our responsibility to ensure that we are providing our female employees with career enhancement opportunities.	Our priority is to ensure that our practices and procedures give female employees the support and opportunity they need to flourish in their career aspirations. We have an active Diversity, Equity and Inclusion Network that is led from the very top of the organisation. Network meetings are led by our CEO and frequently involve contributions from Board members as well as external speakers. During 2022 we launched a new programme to enhance gender equality: 'Coats for Her'. In filling role vacancies we seek to have short lists that are gender balanced whether for internal or external candidates. Our programmes for gender equality and our current performance are described in the following section of this report, with page number: **Coats for Her** - 54 **Promoting Diversity and Inclusion** - 54	Our aspiration is to achieve high levels of gender equality at Board and senior management levels. This will lead to an enhanced ability to attract and retain skilled employees which will deliver greater productivity and increased competitiveness for the business. With Board turnover in 2022 our female representation has dropped from 50% in 2021 to 44% in 2022. Our focus over the coming years is to make strong progress in our female representation at senior management levels and our goal for 2026 is to achieve 30% with an aspiration to achieve 40% by 2030.

Strategy Overview

COATS AND THE SUSTAINABLE DEVELOPMENT GOALS

SDG	WHY IS THIS RELEVANT TO COATS, WHAT ARE OUR OPPORTUNITIES AND RESPONSIBILITIES?	OUR PRIORITIES AND ACTIONS	OUR GOALS AND INDICATORS, OUR DESIRED OUTCOMES AND IMPACT
6 CLEAN WATER AND SANITATION	Most of our thread and yarn products require dyeing and this currently is mainly dependent on the use of water. Many of the locations in which we operate are water stressed and our use of water, though temporary, could restrict availability for others. Our industrial use of water can also lead to degradation of water quality when returned to the environment. Our responsibility is to minimise fresh water abstraction, especially in areas of high water stress and to return the water we have used to the environment in a fit state for use by others. We are focused on opportunities to reduce or eliminate water use, on recycling water where necessary, and on technologies that reduce contamination of water in the first place or that provide better remediation after use.	Our priority during this last period has continued to be on the reduction of water use in our processes, eliminating any wasteful or unnecessary uses, and re-engineering processes to reduce water use or reduce the use of chemicals that can lead to degradation of water quality. Continued investment in remediation of water after use is also a high priority and looking forward our focus will shift onto ensuring that we are cleaning and recycling more water to reduce our fresh water abstraction in areas of high water stress. We also have an ongoing interest and active project in developing water-free dyeing technology. These programmes are described in the following sections of this report, with page numbers: **Reducing water use** – 19 **Recycling of water** – 20 **Treatment of effluent** – 27 **Water-free dyeing technology** - 20	Having largely achieved our 2022 targets, which were: – To reduce our water intensity (in litres/kilo) by 40% by 2022 compared to 2018 – To be fully compliant with ZDHC effluent and sludge standards by 2022 Our focus going forward will be to reduce our fresh water abstraction in high water stress areas, while maintaining full compliance with ZDHC effluent and sludge standards. Our desired outcome is for there to be no harmful water-related impact from our activities on our stakeholders (especially our Communities and the Environment).
7 AFFORDABLE AND CLEAN ENERGY	Our processes require energy for process heat and for powering our machines. The former relies mainly on the burning of fuels to generate super-heated steam, while the latter is mainly provided as electricity from third party suppliers. Our responsibility here is to ensure that we are using the cleanest available fuels in our steam boilers and that we are promoting the use of clean and renewable electricity generation through agreements with suppliers for both on and off-site renewable programmes. The opportunity we have is to convert all of our electricity to renewable sources and to progressively convert our heat energy to electrical or other clean generation systems.	We eliminated any use of coal in our operations in 2019, and our sites seek to use gas rather than oil in their boilers where possible. We have put a hold on boiler replacement activities while we review the options for clean steam generation. We have a programme in place for transitioning to renewable electricity that includes both on and off-site supply agreements. Our programmes in this area are described on page 29	Our stated goal, under our approved Science Based Targets is to increase sourcing of renewable electricity to 100% by 2030. In addition we have made the commitment that 70% of all our energy will be from renewable sources by 2030. Our desired outcome here is to use our economic leverage to help accelerate the supply of clean, affordable and renewable energy.
8 DECENT WORK AND ECONOMIC GROWTH	We directly employ over 18,000 people and they and their families are directly dependent on our employment. Our upstream supply chain partners also employ many people and their employment is partially or fully dependent on our activities. Our responsibility is to ensure that we and our supply chain provide stable, decent and appropriately remunerated employment conditions and that our activity provides economic growth opportunities for our employees, our neighbouring communities and the employees of our suppliers. Our principal opportunity is to use our purchasing leverage to extend responsible employment throughout our supply chain.	Our priority is to continue to ensure that all of our employment norms are rigorously applied to our own operations and to progressively extend these to our upstream supply chain. Our programmes to support this work are described in the following sections of this report with page numbers: **Great Place to Work certifications** – 52 **Whistleblowing hotline results** – 58 **Living Wage implementation** – 58 **Group internal Audits** – 58 **Supplier Code implementation** – 58 **Anti Modern Slavery work** – 58	Our goal has been to have all of our key units externally certified under the Great Place to Work scheme by 2022. 80% employee coverage was our target here and in 2021 we achieved 81%, so met this target a year early. In 2022 we again surpassed the target with 86% certification. We will continue to seek further certifications in this area and have set a new target of 88% by 2026. Monitoring of employment standards is provided by our global data system, by Group Internal Audit checks and by our externally managed whistleblowing hotline. Supplier Code compliance is monitored, based on risk evaluations, by both internal and external audits. Our desired outcome here is to see our standards progressively spread along our supply chain, which would have a beneficial impact on many more than our direct employment numbers.

COATS AND THE SUSTAINABLE DEVELOPMENT GOALS

SDG	WHY IS THIS RELEVANT TO COATS, WHAT ARE OUR OPPORTUNITIES AND RESPONSIBILITIES?	OUR PRIORITIES AND ACTIONS	OUR GOALS AND INDICATORS, OUR DESIRED OUTCOMES AND IMPACT
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	The textile industry is principally a user of virgin raw materials from both natural and synthetic sources, and the trend in recent years is for garments to be used for a shorter lifespan and then to be disposed of in ways that don't recycle the useful materials. This is a wasteful model and it is our responsibility to ensure not only that we don't persist with this model in our own business, but that, where possible, we support the rest of the industry to move away from this model. The opportunity we have is that progressively we are introducing more recycled or regenerated or renewable materials into our product lines, and that we also have an emerging line of products that will assist in dismantling of garments at the end-of-life to promote easier recycling.	We are currently prioritising the development of recycled, regenerated and bio-based products in our range and seeking to reduce waste in our operations and, by focussing on packaging also reduce waste for our suppliers and our customers. We have developed multiple circular models for packaging materials with our suppliers this year to reduce waste in this area. We also launched in 2022 our first thread that will assist with the recycling of garments at the end-of-life. These programmes are described in the following sections of this report, with page number 34.	Our short term goal has been to reduce our internal waste by 25% by 2022, and this was largely achieved on time. In terms of waste reduction our new target is to eliminate all waste to landfill by 2026. We have a major programme of material transition that is seeing us convert from virgin oil-based products to recycled materials and our goal for 2026 is to have 60% of our raw materials coming from recycled or renewable sources. We have also committed that by 2030 all of our products will be made without any use of new oil-extraction materials. We are also focussing on developing new bio-based material streams and our Innovation Hub in China is focussed on developing both bio-based and recycled materials. Making our packaging more sustainable is also a key goal for us. Our desired outcome is to have a suite of products that are recycled and/or bio-based and that support the recycling of garments, footwear and other products at the end-of-life through mono-materiality or separation and recycling. Particularly in the case of our threads, because these are what holds garments together then the impact we can have in this area is proportionally greater.
13 CLIMATE ACTION	Our activities contribute to global warming and our responsibility is to ensure that we reduce our emissions, and those of our value chain, in line with what is required to minimise the damage from climate change. The principal opportunity we have to achieve this is via the transition to renewable electricity, though energy conservation will continue to play a significant part.	Our near-term Science Based Targets, to 2030, were approved early in 2022 and we have submitted our long term Net Zero commitment for approval. During 2022 we have continued to reduce our energy intensity and have made progress on our transition to renewable energy with several new onsite solar projects in development, and by increasing our purchases of energy attribute certificates while we develop offsite opportunities. Our programmes in this area are described in the following sections of this report, with page numbers: **Climate change** – 21	Our approved Science Based Targets commit us to: – Reduce absolute scope 1 and 2 GHG emissions 46.2% by 2030 from a 2019 base year. – Increase annual sourcing of renewable electricity from 5% in 2019 to 100% by 2030. – Reduce absolute scope 3 emissions 33% by 2030 from a 2019 base year. Our Net Zero targets for 2050 are currently under review by Science Based Targets initiative. These targets are in line with a 1.5°C trajectory and this will allow us to maximise our impact in supporting global actions to reduce climate change.

Strategy Overview

SUMMARY OF PROGRESS AGAINST OUR 2022 TARGETS

When we established our 2022 targets in late 2018 we were clear that we were giving ourselves some very ambitious targets.

Our aim in setting the bar high was to challenge ourselves to achieve more than we might otherwise think feasible. The journey to 2022 has been one of exploration as we have developed and trialled multiple different initiatives to achieve these targets. Some of these have been successful while others have not, but the combined impact of them has been transformational on the business.

As can be seen in the table to the right, we have achieved or got very close to all of our targets and this is thanks to the motivation and dedication of thousands of our colleagues in finding news ways to do things better. In the commentary on each pillar in this report are some examples of the work done to deliver on this performance across the business.

STRATEGY PILLAR	2022 TARGET	2022 PERFORMANCE	% ACHIEVEMENT VS TARGET
ENERGY	Reduction of 7% in energy intensity vs 2018 baseline	Reduction of 10% vs 2018 baseline	143%
MATERIALS	25% reduction in waste intensity vs 2018 baseline	25% reduction vs 2018 baseline	100%
WATER	Reduction of 40% in water intensity vs 2018 baseline	Reduction of 38% vs 2018 baseline	94%
EFFLUENT	100% compliance with ZDHC effluent standards	92% compliance	92%
SOCIAL	80% of employees in countries with Great Place to Work certification	86% of employees in countries with certification	108%

Strategy Overview

LEADERS' VOICES

With the acquisition of Texon and Rhenoflex the company has been restructured around 3 customer focussed divisions: Apparel, Footwear and Performance Materials. We invite the Chief Executive Officer of each division to comment on their sustainability focus for the future.

Adrian Elliott

Divisional Chief Executive Officer - Apparel

The Apparel Division has a broad global footprint that aligns to the manufacturing centres for the global apparel industry.

Our garment making customers are constantly under pressure to deliver to tight schedules with excellent colour matching. Coats has widely distributed downstream manufacturing to meet this need and we are producing hundreds of thousands of unique colours each year with small average batch sizes. This complexity is inherent to the industry and we don't foresee any radical change to this in the near future.

Many of our specifying brand customers are already very focused on what they must do to make their supply chain more sustainable, and this trend will continue as consumers and pressure groups increase the pressure on the textile industry as a whole. Emissions reductions, low carbon materials, life cycle analyses, water abstraction, pollution and all aspects of employment and human rights are all of high concern across the industry. Circularity and recycling at the end of life are also increasingly the direction of travel for the leading brands.

> Circularity and recycling at the end of life are also increasingly the direction of travel for the leading brands"
>
> **Adrian Elliott**

Sustainability in the apparel industry means responding to all of these challenges. The suppliers which, like Coats, can commit to working with brands to support their journey towards sustainability will be the ones that succeed and prosper in an increasingly challenging environment. The last few years has seen the expectations of leading brands move from where sustainability in their suppliers is seen as an added value to where it becomes a necessary qualification.

While the material issues in the apparel industry are multiple, if there is one area that is consistently a concern for leading brands it has to be value chain emissions reductions. Over half of our brand related sales are to companies that have made explicit commitments to have Net-Zero targets achieved on or before 2050 and that number is growing almost monthly.

For the Apparel Division therefore, value chain emissions reductions is absolutely the number one sustainability priority. This will be achieved through energy reductions and the renewable energy transition and through material transition to recycled, circular or bio-based materials, and all of these programmes are already well underway in Coats.

Adrian Elliott
Divisional CEO - Apparel

Strategy Overview

Frederic Verague
Divisional CEO – Footwear

LEADERS' VOICES

Frederic Verague

Divisional Chief Executive Officer - Footwear

The global footwear industry is quite concentrated into a small number of mainly Asian countries that have the expertise in manufacturing the highly complex composite products that are today's footwear products.

It is a segment that combines highly traditional, long established prestige brands with unparalleled innovation, especially in the sports footwear segment.

The Coats Footwear Division supplies critical structural components and threads and for all of these products, technical product performance is the single most important criteria demanded by our brands. Everything we do in the sustainability field has to start from the imperative to provide that requisite level of performance. Key brands are, however, challenging themselves to make products that meet high product performance while providing a better sustainability footprint, and to achieve that they are expecting more from their supply partners.

Increasing sophistication in the recycling industry is making it possible to produce very high performance recycled materials, including from nylon. At the same time process innovation is constantly opening new opportunities for reducing waste in manufacturing processes by moving closer towards additive manufacturing models. End of life concerns are being addressed by increasing trends towards mono-material design concepts. Detailed life cycle analyses of different approaches are increasingly required by designers to ensure that they are choosing the best options where achieving the balance of desired outcomes is not necessarily obvious.

> We can offer brands an alignment of sustainability focus that is tailored to their needs"
>
> **Frederic Verague**

Coats Footwear Division is ideally positioned to meet these growing needs. Both our new structural components segment and our thread segment have a long history of customer centric innovation activities and both segments have pivoted in recent years to meet the growing sustainability demands. Bringing these together means that we can offer brands an alignment of sustainability focus that is tailored to their needs across pretty much all of the core structural components in their products.

If there is one key trend to call out for the near future it will be the need to provide transparent life cycle analyses to help brands make complex decisions that balance the priority concerns around the emissions footprint of their products with other areas of product compliance and performance.

Strategy Overview

LEADERS' VOICES

Soundar Rajan
Divisional Chief Executive Officer - PM

Coats Performance Materials Division addresses a wide range of customer segments that have quite divergent product needs but which are all consistent in their need to have a thread or yarn product that complies with tight performance and compliance requirements.

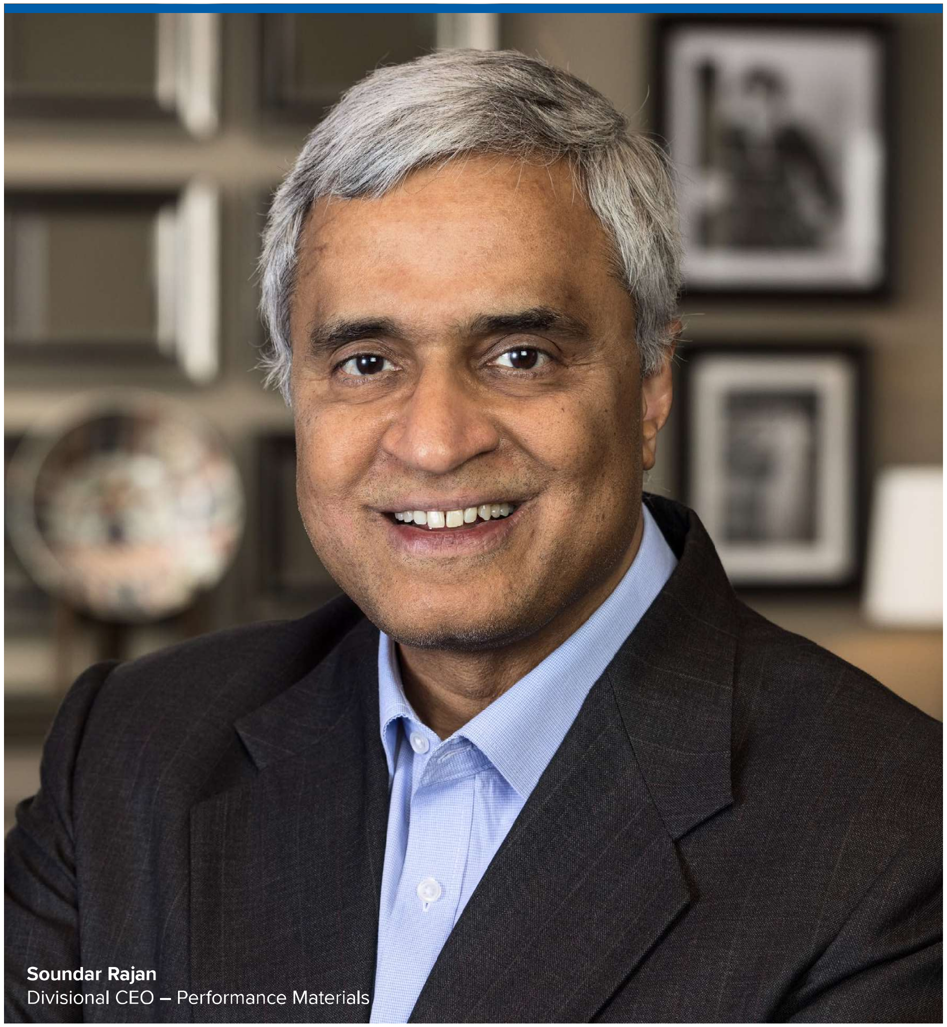
Our products go into high performance protective wear, into automotive safety components, into communications infrastructure and many other less technical but equally demanding segments.

Until recently sustainability concerns have been low on the list of priorities across these segments, but we are increasingly seeing issues now being raised. These include product durability to avoid early obsolescence, light-weighting to reduce the energy demand in use and end of life material recycling concerns. Life cycle analyses of new more sustainable technology options are also increasingly being required by customers wanting to make decisions with full knowledge of the options available and their implications.

Our composite technologies, Synergex and Lattice are examples of new materials that can meet these needs. The technology allows for almost zero waste production of complex shapes. These can be lighter in weight than using alternative technologies because of the variable and precise orientation of the reinforcement fibres and the material combinations can be tailored to use low carbon or bio-materials. These properties provide obvious benefits in the transport industries, but are also being sought for use in sporting products.

The clear direction of travel is for transparency of the life cycle impacts of different material impacts to be available early in the design process to ensure that sustainability impacts are accurately assessed in making design decisions. Coats is well placed to develop increasingly sophisticated life cycle analysis tools to meet these needs.

> The technology allows for almost zero waste production of complex shapes"
>
> **Soundar Rajan**



Soundar Rajan
Divisional CEO – Performance Materials

COATS SUPPLY CHAIN

UPSTREAM

DOWNSTREAM

RAW MATERIALS

Nearly 95% of our raw materials are oil-based plastic fibres. We are expanding our use of recycled polyester from drinks bottles. Using recycled fibres reduces oil use, extends the life of the polymers and reduces CO_2 emissions in the fibres by 40%.

SPINNING & TWISTING

This process converts the raw fibres into yarns and threads. The process uses a lot of electrical energy, accounting for about 25% of our total energy use. Good production planning and machine maintenance is key to minimising energy use.

DYEING

This process colours the thread. It is done with hot water and at high pressures. Overall the process accounts for around 60% of our energy use, both as electricity and fossil fuels, and 90% of our water use. Improving processes and using modern machinery is key to minimising energy and water use.

COATING & FINISHING

Here we apply finishes to the thread and put it onto a sales support. Packaging accounts for about 20% of sales material weight – we are working to reduce this. This process uses about 13% of our energy, mainly as electricity.

DISTRIBUTION

Most Coats warehouses are located alongside production units. This is because many products are manufactured against customer orders. Distribution from warehouse to customers is normally done by third parties.

SEWING

Thread is used largely to sew the seams that hold apparel and footwear products together. The volume of thread in the final product is normally very small, <3%. In some countries we have set up systems for collecting and reusing empty cones. At the moment, virtually all product goes to waste at the end-of-life. We are working on products that will enable greater recovery and circularity of materials.