



PIONEERING A SUSTAINABLE FUTURE

RAISING OUR
AMBITION

ABOUT COATS

Coats is the world's leading industrial thread company.

Headquartered in the UK, our products are sold in over 100 countries with digital platforms enabling us to serve customers wherever they are located. We give employment to nearly 18,000 people across six continents, and we operate in some 50 countries which provides an unrivalled global footprint.

We work with 30,000 apparel and footwear manufacturers and 4,000 retailers and brands globally, as well as with 8,500 performance materials customers. In 2020 our group revenue was \$1,163 million with operating profit of \$111 million

REVENUE (\$M)¹



OPERATING PROFIT (\$M)¹



¹Revenue and adjusted operating profit are from continuing operations excluding NA Crafts which was sold on 20/02/19. In the report all data includes NA Crafts for 2018 but where appropriate 2018 data is restated without NA Crafts to assist comparisons.



COATS GROUP PLC WAS EXTREMELY PROUD TO MAINTAIN OUR PLACE IN THE FTSE4GOOD INDEX FOR THE THIRD CONSECUTIVE YEAR.



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WWW.COATS.COM/SUSTAINABILITY



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ABOUT THIS REPORT

The information in this report covers the period from 1st January 2020 to 31st December 2020. 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 for the third year we have produced an additional tailored index for our investors offering more direct navigation to relevant Environmental, Social and Governance (ESG) information of interest to them.

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WELCOME FROM OUR GROUP CHIEF EXECUTIVE

Rajiv Sharma
Group Chief Executive
4th March 2021



A year ago, at the time of writing my welcome to our 2019 report, we were dealing with disruption in our Chinese plants because of country-wide lockdowns in response to a recently emerging novel coronavirus. At that point we hadn't realised that this would be the defining issue for the whole year. Clearly, in the circumstances the biggest sustainability challenge for Coats in 2020 has been in responding to the pandemic, and I am intensely proud that the company responded quickly and decisively and in a way that was true to its fundamental values. We have also, notwithstanding the massive disruption caused by the pandemic, continued to make good progress towards our sustainability targets, and remain committed to delivering on them to the original timetable.

That our units in China were involved in dealing with Covid well before it became a pandemic was fortuitous as it meant that we already had protocols developed and ready to implement around the world to protect our people and facilitate safe working practices. Before lockdowns were imposed we had closed all of our stand-alone offices and everybody who could was working from home. All management salaries were reduced in order to protect employment and income for front-line colleagues, giving them certainty and support as more and more of our factories had to close. We then developed comprehensive re-opening protocols including our own track and trace app to be able to identify people at risk if one of their colleagues caught the virus. We also extended our support from employees into the communities around our plants. While our primary focus throughout this period has

clearly been on the health and wellbeing of our colleagues, we have also worked closely with customers and suppliers to ensure that customer needs continued to be met and that supply chains were not destroyed.

During the year, 14 of our colleagues were lost to the disease and this is profoundly sad for all of us. We do take some comfort from the low infection rates within our operations because of the prompt actions taken by all of our units. My colleagues and I have been proud that once again, as has happened many times in its long history, the company has faced an existential crisis by pulling together, doing the right thing and acting true to its most fundamental values.

Covid is obviously not the only global crisis facing us this year. Coats recognises that the climate crisis is upon us and requires concerted and decisive action now from businesses as well as from governments and populations if we are to successfully avoid the risk of uncontrollable climate change. I am pleased that, after a detailed analysis of climate change scenarios and the risk they pose for the business, we have committed to developing Science Based Targets (SBTs) under the Business Ambition for 1.5°C call to action which commits us to developing both shorter term targets and plans that align with the 1.5°C pathway and the longer term goal of Net-Zero by 2050. These targets will all be aligned with the global commitments agreed at the 2015 United Nations Climate Change Conference (COP21). While responding to the pandemic required urgent and intensive action, this challenge will require us to keep

focused for many years to come, constantly developing new emissions reduction opportunities.

I can confirm that we have renewed our participation in and commitment to the United Nations Global Compact (UNGC). We remain fully committed to the 10 UNGC principles covering Human Rights, Labour, the Environment and Anti-Corruption, and are continuing to implement these principles in our operations and in our supply chain. Our commitment continues to help deliver the seven Sustainable Development Goals (SDGs) that we have identified as most relevant to our activities. As was the case for our 2019 Sustainability Report, this report combines our annual, formal Communication on Progress (COP) as Participants of the UNGC and a broader overview of our sustainability activities. As a COP the report covers our actions in support of the Principles and our progress on our sustainability targets and how these relate to the SDGs.

During 2020 we have reviewed and updated our company purpose which is now "to connect talent, textiles and technology to make a better and more sustainable world". Connecting is at the heart of what we do, and talented people, technology and textiles are our tools, while the core of the purpose is to make the world a better and more sustainable place. Sustainability is not new to the way we do business, but this is the first time that we have articulated this so clearly as being at the heart of our company, and hence a driver for our strategic decisions.

In terms of performance towards our strategic targets 2020 has clearly not been an easy year. At times nearly half of our production capacity has been stopped, and we have been faced by variable material supply and big fluctuations of customer demand. Many of the plans that we had at the start of the year had to be suspended or substantially delayed. Notwithstanding these headwinds we continued to work on moving forward where we could and I am happy to report that overall we made very good progress across many of our target areas. The results are detailed in the body of this report. I can confirm that while there is more left to do to meet our targets than we had expected at this point, we remain committed to delivering on those targets and to the original timelines of 2022 and 2024, and will be accelerating actions in 2021 with the aim of recouping the momentum lost due to the pandemic.

While we always pay at least the minimum wage where we operate, during 2020 we completed a global analysis of our remuneration against a Living Wage benchmark and I am pleased that in nearly all cases our packages met or exceeded the benchmark. In the few cases where this was not the case we are taking action in 2021 to meet the Living Wage benchmark.

We expect no return to "normality" in 2021, we are instead entering a new world. And it is one where sustainable business practices are even more important for responsible companies than before the pandemic. We welcome this and I am confident that the global Coats team that I lead is ready and willing to meet these challenges and deliver for our business and our stakeholders.

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COATS SUPPLY CHAIN

UPSTREAM



RAW MATERIALS

Over 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 CO2 emissions in the fibres by 40%.

DYEING

This process colours the thread. It is done with hot water and at high pressures. Overall the process accounts for around 58% 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.



SPINNING & TWISTING

This process converts the raw fibres into yarns and threads. The process uses a lot of electrical energy, accounting for about 27% of our total energy use. Good production planning and machine maintenance is key to minimising energy use.

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.

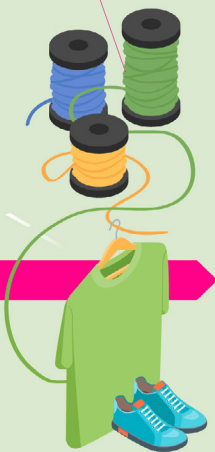


COATING & FINISHING

Here we apply finishes to the thread and put it onto a sales support. Packaging accounts for about 25% of sales material weight – we are working to reduce this. This process uses about 12% of our energy, mainly as electricity.

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.



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COMMITTED TO THE UN GLOBAL COMPACT

During 2019, we were delighted to have joined, as a Participant, the UN Global Compact (UNGC). Our 2019 Sustainability Report was our first Communication on Progress (COP) as Participants of the UNGC. In 2020 we have played an active role in the UNGC Network UK group, participating in workshops, training and working groups. This report is our second COP and we will continue to align our Sustainability Report to the COP reporting needs of the UNGC.

We are fully supportive and committed to the ten principles of the Compact, covering issues around human rights, labour, environment and anti-corruption.

We are taking an active role in helping extend the UN Principles, which are already embedded in our business, and promoting action in both our business and across our supply chain to help deliver the 2030 Sustainable Development Goals (SDGs).

THE TEN PRINCIPLES AND COATS' POLICIES AND EXAMPLES OF ACTIVITIES AGAINST THEM:

	UNGC 'TEN PRINCIPLES'	COATS ACTIONS AND/OR RELEVANT POLICIES	PAGE
 HUMAN RIGHTS	Pr.1: Businesses should support and respect the protection of internationally proclaimed human rights	<ul style="list-style-type: none"> • Biennial Human Rights Risk Assessment • Supplier Code 2020 update* 	27 29
	Pr.2: Make sure that they are not complicit in human right abuses	<ul style="list-style-type: none"> • Supplier Code implementation and audits • Group Internal Audits • Living Wage implementation • Anti-Modern Slavery programme** • Whistleblowing hotline* • Anti-Bribery and Corruption actions 	29 27 27 27 27 27
 LABOUR	Pr.3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	<ul style="list-style-type: none"> • Unionisation and collective bargaining performance 	28
	Pr.4: The elimination of all forms of forced and compulsory labour	<ul style="list-style-type: none"> • Anti-Modern Slavery activities** • Supplier Code update and implementation* 	27,29 29
	Pr.5: The effective abolition of child labour	<ul style="list-style-type: none"> • Group Internal Audit programme • Supplier Code update and implementation* 	27 29
	Pr.6: The elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"> • Diversity and Inclusion programme • Gender diversity statistics 	28 30
 ENVIRONMENT	Pr.7: Businesses should support a precautionary approach to environmental challenges	<ul style="list-style-type: none"> • Coats Restricted Substances list • Water Stress analysis • Environmental Policy* 	23 13
	Pr.8: Undertake initiatives to promote greater environmental responsibility	<ul style="list-style-type: none"> • Online tracking of permits, incidents and projects • Online monitoring of effluent • Adoption of global effluent standards • Investment in effluent treatment 	22 22 23 22,24
	Pr.9: Encourage the development and diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> • Recycled polyester project • Packaging reduction projects • Development of water-free dyeing • Additionality in renewable energy • Development of circularity 	34 35 16 19 36,37
	Pr.10: Businesses should work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> • Group Internal Audit programme • Anti-Bribery and Corruption training • Whistleblowing hotline* 	27 27 27
 ANTI-CORRUPTION			

All policies can be found at:
www.coats.com/en/Sustainability/Policies-and-downloads (*)
www.coats.com/en/Modern-Slavery-Act-Statement (**)



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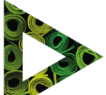

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OUR STRATEGY: PROGRESS TOWARDS PIONEERING A SUSTAINABLE FUTURE

During 2018, we launched our ambitious new strategy for Coats called 'Pioneering a sustainable future'. This focusses on five priority areas where we can accelerate progress through the targeted investment of capital and resources. Two years into this 5 year strategy, the table below summarises the progress we have made

PILLAR	WHY IS THIS A PRIORITY?	2020 HIGHLIGHTS	UN SDG	TARGETS AND PERFORMANCE	PAGE
 WATER	Water is a precious resource and is coming under increasing pressure globally. Textile manufacturing uses a lot of water, especially for dyeing processes. To ensure that sufficient water is available for everyone and the natural world, we have to ensure that we use no more than is necessary and use it as efficiently as possible. Not prioritising this would entail risks for business continuity and rising costs.	During 2020 we have extended the learning from our Short Liquor Ratio project to additional sites. In addition we have focussed on identifying areas of water wastage and dealing with them.		By 2022 we will reduce the amount of water used per kilogramme of thread produced by 40% against our 2018 baseline. By 2020 we have achieved a 6% reduction	12
 ENERGY	Climate change is a significant risk issue for our business and we need to reduce our energy demand where possible and decarbonise the energy that we do continue to use.	<p>Our pilot project for energy management had to be halted during 2020 and we are reinitiating it in 2021. This will continue to deliver energy reductions towards our target.</p> <p>We have committed to develop Science Based Targets and will be working on those in 2021. We have continued shifting electricity supply to renewable sources.</p>	 	<p>Our renewable energy target will be revised as part of our Science Based Targets.</p> <p>By 2022 we will achieve a 7% reduction in kWh per kilogramme of production from our 2018 base line. By 2020 we have achieved 3%</p>	17
 EFFLUENT & EMISSIONS	While we continue to use water in our processes we will generate effluent. It is essential that any water we return to the environment is properly treated to ensure that there is no damage to the water sources that we and our communities rely on.	<p>We continue to invest substantially in upgrading and modernising our effluent treatment plants, and from 2019 all units with in-country test facilities are being regularly tested for effluent and sludge against the Zero Discharge of Hazardous Chemicals (ZDHC) standards.</p> <p>All key sites are monitored continuously for key parameters with automatic sensors.</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>By 2020 74% of our effluent is compliant</p>	21
 SOCIAL	We employ nearly 18,000 people from 60 countries spread across 6 continents. Ensuring that our diverse people are skilled and engaged and have the development opportunities they seek has always been critical. The experience of the pandemic during 2020 has served to reinforce this commitment.	<p>Ensuring the safety and economic and physical wellbeing of our people and their families during the pandemic has been the absolutely top priority for the company.</p> <p>At the same time we have continued to develop our health & safety and ethics programmes. We have also completed a review of remuneration against Living Wage benchmarks, and the limited amount of remedial action emerging from that will be completed in 2021.</p>	  	<p>By 2022 we will have external Social certifications (such as Great Place to Work) across all our key sites. Our aim is to have over 80% of our employees in certified sites.</p> <p>In 2020 6% of our employees are covered.</p> <p>By 2022 we aim to have all employees contributing to community activities.</p>	25
 LIVING SUSTAINABLY	<p>Our products are produced largely from synthetic materials that are oil based. Because these materials don't biodegrade, and the raw material source is finite, we must ensure that we develop towards circularity of use.</p> <p>Waste is both a misuse of scarce material and a serious loss of value, so our focus must be on reducing it, and then reusing or recycling what we cannot prevent.</p>	<p>We have significantly expanded our Ecoverde range of 100% recycled polyester threads and sales are growing rapidly.</p> <p>With the transparency we now have on all types of waste across our units, we are beginning to see the benefit in reduction of waste generation and increased reuse or recycling of waste.</p>		<p>By 2022 we will reduce our generated waste by 25% against our 2018 benchmark. In 2020 we reduced our waste percentage by 8% vs 2018</p> <p>By 2024, all our premium polyester threads will be from 100% recycled material.</p> <p>By 2020 13% of our premium sales are recycled</p>	33

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SDG	WHY IS THIS SDG RELEVANT TO COATS, WHAT ARE OUR OPPORTUNITIES AND RESPONSIBILITIES?	OUR PRIORITIES AND ACTIONS	OUR GOALS AND INDICATORS, OUR DESIRED OUTCOMES AND IMPACT
 3 GOOD HEALTH AND WELL-BEING	<p>We employ nearly 18,000 people in multiple countries, many of them developing, and operate in communities that often depend on our activities for their economic wellbeing. Our business is dependent on having access to healthy and motivated employees. Ensuring the health and wellbeing of our employees, their families and neighbouring communities is good for our business and good for them.</p>	<p>That our employees are able to return home safely every day. That their health is maintained and improves while working with us. That we foster the health of future generations who will be our future employees. During the pandemic we have been running awareness and training sessions for employees and providing equipment to help them keep themselves and their families safe</p> <p>Programmes supporting this are described in the following sections of the report, with page numbers;</p> <p>Pandemic response - 26</p> <p>Journey to Zero - 26</p> <p>Commuting training - 26</p>	<p>Our goal is to have zero incidents for both workplace and commuting, and we measure both of these rates and publish them.</p> <p>We will continue to have a strong health programme focussed on the pandemic and protecting people from it. This will provide the basis for a broader-based health and wellbeing programme after the pandemic risks recede.</p>
 5 GENDER EQUALITY	<p>Accessing the highest quality of employees globally should give us a broadly neutral gender balance at all levels. At global company levels our balance is 42:58 (female:male), and at senior management levels the ratio is 23:77. This indicates that we are not succeeding yet in fully promoting female talent throughout the organisation. This is an opportunity for us to improve the quality of our employees and we have a responsibility to our female employees to further enhance their prospects.</p>	<p>Our priority has been to lead our Diversity and Inclusion network programme from the very top of the organisation. Regular global calls are led by our CEO and with guest internal or external speakers on all calls. Board members frequently present on calls.</p> <p>Recruitment consultants are routinely instructed to ensure that all short lists for management posts have female candidates.</p> <p>Our broader diversity programmes are described on page 28 and further details of our gender balance are described on page 30</p>	<p>Gender equality at Board and senior management levels Ability to attract and retain higher skilled employees. Increased productivity and greater company competitiveness.</p> <p>Our gender balance at Board level continues to improve and female representation has increased to 40% in 2020 (2019 33%).</p> <p>Within our senior management team the % of women was 23% (24% in 2019). We will be continuing to prioritise actions in this area to develop more female candidates for senior positions. Our desired outcome is to see both these metrics increasing until there is a broad gender balance in the organisation.</p>
 6 CLEAN WATER AND SANITATION	<p>As a textile dyer we currently use a lot of water. Our use of water can, in water stressed areas, reduce the availability for others of this fundamental and finite resource. Our use of it also has the potential to degrade the quality of water returned to the environment. Our responsibility is to minimise our use of water, especially in areas of high water stress and to ensure that water we have used is returned to the environment in a good condition for use by others. The opportunity we have lies in the development of technologies to reduce, or completely eliminate, our reliance on water.</p>	<p>Our principle areas of focus have been on reducing water use in our production processes and on ensuring that our treatment of effluent meets high standards. A long term aspiration is to eliminate the use of water in as many of our processes as is technically feasible. Our programmes supporting these aims are described in the following sections;</p> <p>Water reduction activities - 13, 14, 15</p> <p>Water recycling - 14</p> <p>Development of water-free processes - 16</p> <p>Treatment of effluents - 22, 23, 24</p>	<p>Our goals are;</p> <ul style="list-style-type: none"> • To reduce our water intensity by 40% by 2022 (compared to 2018) • To be compliant with ZDHC effluent standards by 2022 • We monitor and report on water recycling also, but we have no specific goal for this. <p>Our desired outcome is not to have any harmful impact from our use of water on our stakeholders (especially Communities and the Environment)</p>



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	<p>We use energy mainly for process heating and for powering machines. The former is mainly achieved by burning fuels to generate steam, while the latter relies mainly on electricity supplied by third parties. Our principal responsibilities are to ensure that we are using cleaner energy in our steam boilers and that we source electricity from sources that use clean or renewable energy. The opportunity we have is to substantially convert our electricity to renewable generation sources.</p>	<p>We have ceased the use of coal on all of our sites and prioritise natural gas use over oil. We have an active programme for transitioning to renewable electricity. These programmes are described in detail on page 19.</p>	<p>Having completed the transition away from any use of coal in our sites during 2019 our areas of focus now are on decarbonisation of our electricity supplies and ongoing efforts to ensure that the fuels we use on site are as clean as possible.</p>
	<p>We directly employ nearly 18,000 people and many more are dependent on our employment. Many of these are in emerging markets. Our responsibilities are to ensure that we and our supply chains are providing decent work conditions and that one effect of our operations is to promote economic growth for our employees and their communities. Our opportunity is to progressively extend decent work conditions along our upstream supply chain.</p>	<p>Ensuring that all of our direct employees are employed in good condition and are properly remunerated is a principal priority. Extending this concern to our tier one suppliers is also a high priority for us.</p> <p>Our activities to support these priorities is described in the following sections;</p> <p>Great Place to Work certifications- 28</p> <p>Living wage implementation- 27</p> <p>Whistleblowing hotline results - 27</p> <p>Group Internal Audit checks - 27</p> <p>Supplier code update and implementation - 29</p> <p>Anti Modern Slavery programme - 27</p>	<p>Our goal is to have all of our key units externally certified under the Great Place to Work scheme by 2022.</p> <p>Internally, for monitoring compliance against our policies and standards we rely on the transparency provided by our global employee data system, our Group Internal Audit checks, and our whistleblowing system.</p> <p>We monitor supplier compliance with our Supplier Code on a risk based approach using internal and external audits.</p>
	<p>Textile production is currently linear for both natural and synthetic materials. This means that waste is generated during production and products become waste at the end of life. Our responsibilities are to ensure that we minimise the materials we need to produce our products and that we are designing products that are made from the most sustainable material sources. The opportunity we have is to participate in the development of circular product lifecycles that enable the continuous recycling of materials.</p>	<p>Our current priorities are to reduce the generation of waste in our operations and those of our direct customers and to move our primary raw materials to more sustainable sources. The actions underpinning these priorities are described in the following sections;</p> <p>Recycled polyester; Ecoverde - 34</p> <p>Packaging reduction project - 35</p> <p>Waste reduction - 34</p> <p>Circularity projects - 36, 37</p>	<p>Our goals are to reduce our internal waste by 25% by 2022 and to convert all of our premium polyester products to recycled raw material by 2024. Designing more sustainable product packaging is also a priority for us as this accounts for a significant part of our total material use. We are continuing to progress projects to achieve this.</p>
	<p>The emissions from our activities and those of our supply chain contribute to global warming. Our responsibility is to ensure that we reduce our energy use as far as possible and that we de-carbonise the energy we do use in order to reduce our emissions in line with the best available science.</p>	<p>Our immediate priority is to develop and have approved short and long term Science Based Targets on the Business Ambition for 1.5°C and Net Zero by 2050 pathways. Meanwhile we will continue with our existing projects to reduce energy and transition to renewable or less emitting fuels. These projects are described in the following sections of this report;</p> <p>Science Based Targets - 10, 11</p> <p>Energy reduction - 18</p> <p>Conversion to cleaner fuels - 19</p> <p>Transitioning to renewable energy - 19</p>	<p>At the start of 2021 we have committed to developing, and having approved, Science Based Targets (SBTs) under the Business Ambition for 1.5°C call to action. This commits us to short term targets that are aligned with a 1.5°C pathway and a longer term target of Net-Zero by 2050. During 2021 we will be developing these targets which will focus on scopes 1, 2 and 3 emissions, and our aim is to have the targets approved within a year. In the meantime activities to reduce energy use and decarbonise our energy supplies will continue.</p>



CLIMATE CHANGE – AN EXISTENTIAL CRISIS

While arguments on the exact relationship between human activity and climate change will probably continue, there is no doubt that 12,000 years of global climate stability is now breaking down and that atmospheric concentrations of greenhouse gases are a major contributor to this. The risks that this poses to human, animal and plant life on our planet are profound and mean that we should do what we can to halt this change.

During 2020 Coats undertook an in-depth risk analysis on climate change and its potential impact on the business. This included modelling the effects on the business of various different future climate scenarios. While this analysis highlighted the potential future physical risks from rampant climate change across our operations and our supply chains, the biggest business risk identified was from not trying to halt climate change by working towards targets in line with the 2015 Paris Climate Change Conference (COP21).

Coats firmly believes in the overwhelming scientific consensus that man-made emissions are a major contributory factor to climate change. We also recognise that businesses, as major emitters of greenhouse gases, have a significant role to play in reducing emissions. We are determined to transition Coats to a low carbon model by reducing our emissions in line with the requirements agreed in COP21. We have therefore committed to develop, and have approved, Science Based Targets under the highest tier Business Ambition for 1.5°C call to action. The Science Based Targets Initiative approach is, in our view, the most appropriate vehicle for us to use for this commitment. It is fully endorsed and supported by the UNGC, of which we are a Participant, and it has been widely adopted by companies within the textile industry. Having made the formal commitment we are now working on developing the targets and aim to present those for approval during 2021.

The biggest challenge in developing our targets is likely to be in developing a comprehensive inventory of our Scope 3 emissions, especially the upstream and downstream product life cycle emissions. We are already working with key suppliers to develop transparency on the emissions caused by the materials that we buy.

SCOPE	EXPLANATION
Scope 1	Direct emissions from onsite activities – This is where we are burning fuel on our sites to produce energy. This is mainly done in boilers using natural gas or oil to produce process steam. In some sites we also burn fuel to generate electricity. We also use small amounts of fuel for transport purposes on our sites
Scope 2	Indirect emissions from onsite activities – This is mainly where we are buying electricity that has been generated by a third party and hence we have not directly caused the resultant emissions. In some locations we are supplied steam from a third party and hence this is also a scope 2 emission
Scope 3	All other indirect emissions relating to our business – This includes the emissions caused by the production and shipping of the raw materials that we purchase and use, the manufacture of our capital equipment, the disposal of any wastes from our operations, business travel and commuting, the proportional emissions from customer use of our products, the retail and sale of finished items made using our products, consumer use of items containing our products and end of life disposal of the same

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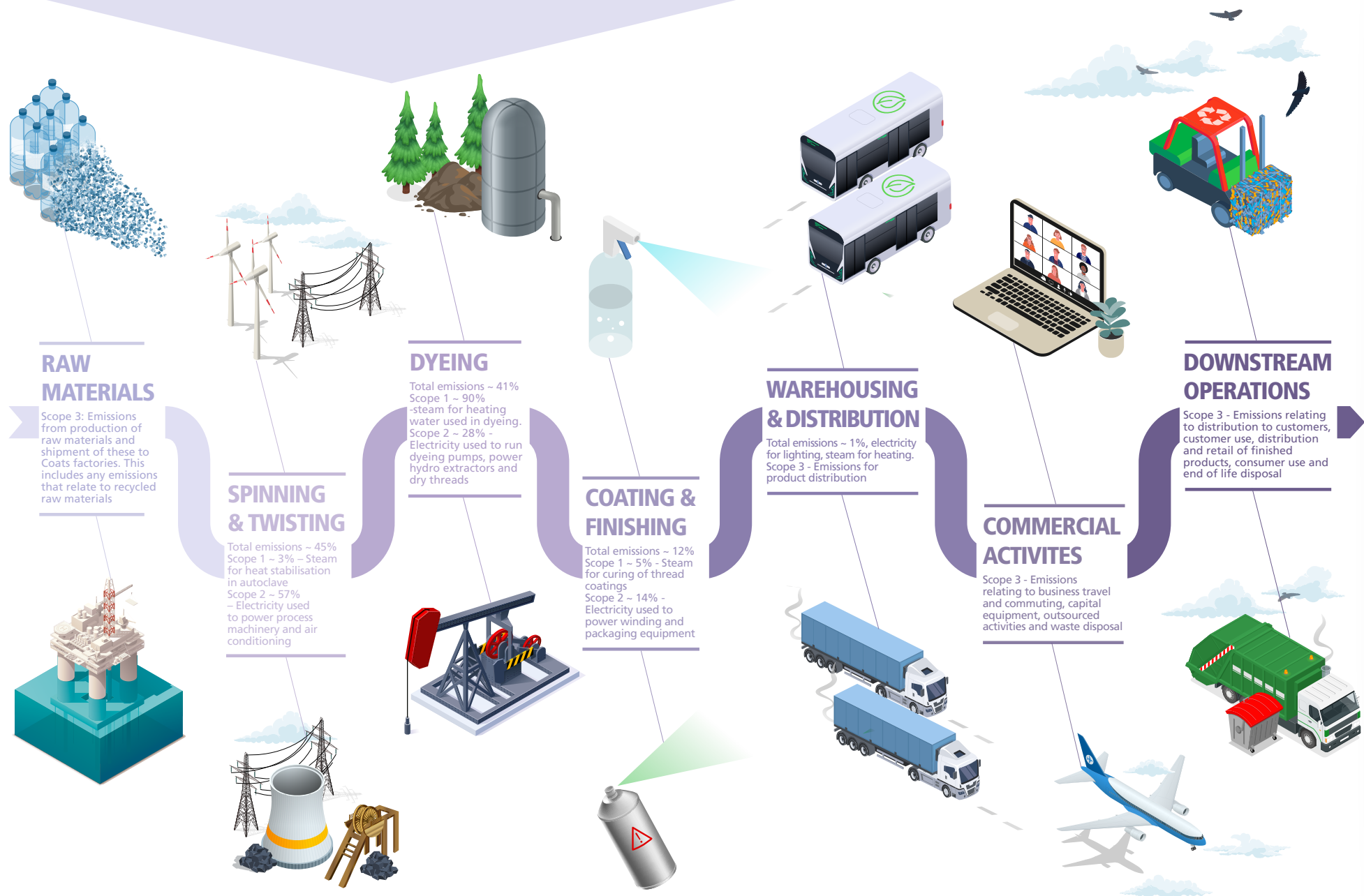
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WATER



MICHAEL SCHOFER
CHIEF
TRANSFORMATION
AND DIGITAL
OFFICER

LEADER'S VOICE

I am pleased with the progress that we have continued to make in reducing water use during 2020. We still have a long way to go to reach our 2022 target, but given the disruption caused by the pandemic, especially to our ability to complete projects we had planned for the year and to plant efficiencies, the results show solid progress.

Water is a shared resource between us and surrounding communities and businesses and we are always conscious that our need for water in our processes must not mean that our neighbours are short of water. We have a four-pronged approach to reducing water use; eliminating unnecessary use of water, especially from leaks, reducing the amount of water required in a dyebath, modifying processes to reduce steps requiring water and recycling as much water as we can. Our process engineers are constantly focussed on these objectives. Meanwhile we continue to invest in developing the water-free technologies of the future.

A SHARED RESOURCE

Since Coats first started producing sewing threads 200 years ago, water has been an important resource for us. Originally it was used as the medium for cotton treatment processes; mercerising, bleaching and dyeing, and though these processes are now quite marginal for us (since less than 5% of our thread is now made from cotton), it is still the principal solvent used in our dyeing process, which is now mainly dyeing of polyester. The bulk of our water use is in dyeing and its related rinsing and washing processes. It is also, as high pressure steam, the principal way that we apply heat in our processes, which again is mainly related to dyeing as polyester dyeing normally has to be done at over 130° Centigrade. Outside the dyeing process we use water for atmospheric humidification and chilling, for steam setting and for applying and curing some performance coatings. With current industrialised technology is simply isn't possible to make sewing thread without the use of water.

We are an active promoter of emerging disruptive technology that could, in the future, reduce our dependence on water, but in the meantime we recognise our responsibilities as the temporary custodians of a shared, and sometimes scarce resource. The communities in which we

operate require water for domestic and agricultural purposes, and it is therefore our responsibility to use as little as we can, recycle and reuse as much as we can and to ensure that any we return to the environment is suitably treated.

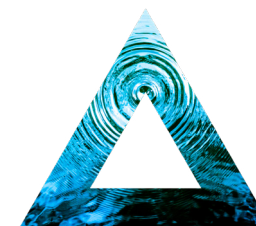
UNDERSTANDING OUR ENVIRONMENT

With plants operating in many locations around the world, it is vital that we understand the issues related to our use of water location by location. Obviously our teams operating on-site are keenly aware of the situation for their unit, but in addition to this, and in order to have a strategic overview of the current and future water related issues in all of our dyeing sites, we do regular water stress analyses using the Aqueduct Water Risk Atlas that is developed and maintained by the World Resources Institute. This allows us to understand, for the precise locations of our plants, the supply and demand water balance (the overall stress), together with the depletion and water table decline rates. This allows us to identify emerging issues and plan appropriate action.

The scope of our analysis this year has been widened to include sites that don't have dyeing but do use significant amounts of water for humidification, chilling or curing purposes. These are mainly our spinning units.

The inclusion of these additional units has led to an increase in our overall risk level, with 37% of our water demand in locations that have at least a high water stress level. This reinforces the need to continue to pursue our water demand reduction activities and also to continue to develop water recycling projects especially where the water stress levels are particularly high.

We have also looked at water depletion and water table decline as issues relating to particular units and the risks in these two areas are very low, as we found in previous studies.



REDUCING WATER USE IN EXISTING PROCESSES

New dyeing machines are engineered to use as little water as possible. Some new machines can operate with only 4.5 litres required per kilogramme of thread. We call this relationship the liquor ratio, in this case being 1:4.5. Older machines were designed to operate with liquor ratios of between 1:8 and 1:10 (so 10 litres per kilogramme of thread). Since most of our installed machines are of the older design, one of our main areas of focus has been on developing innovative ways to reduce the effective liquor ratio of these machines. We introduced the work done in Bangladesh on this Short Liquor Ratio project in our 2019 Sustainability Report. We have been extending that learning in 2020, both by continuing the innovation work and spreading the new practices into different countries, and will be continuing to extend this practice in 2021.



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REDUCING WATER USE

Our goal is to reduce our water used per kilogramme of thread produced by 40% by 2022 against our 2018 baseline. This is on top of a reduction of 28% achieved during the previous period, from 2013 to 2018. In 2020 we have achieved a 6% reduction compared to 2018. While this is less progress than we had planned for the year, in the circumstances of the pandemic we are very pleased that we have managed to continue to make good progress towards our goal. Our momentum was impacted during the period when production was severely curtailed due to the pandemic. Coats' individual dyeing machines are designed to work with the same ratio of thread to water across the range of machine sizes, but running a dyehouse at low utilisation levels impacts significantly on the water (and energy) use as all of the infrastructure is under-utilised. We have seen water performance recover as production levels have picked up again in the later months, and we anticipate that we will be able to continue to make significant progress towards our target during 2021, though clearly the lower rate of progress during 2020 due to the pandemic will make achieving our ambitious 2022 target harder than would otherwise have been the case.

We have amended the scope of our reporting to include Pharr High Performance Yarns. This USA business acquisition was completed early in 2020 and to be able to report on a like for like basis we have now incorporated Pharr data into our 2018 baseline and restated 2019. We have also corrected some data definition discrepancies that meant that not all finished thread production volume was being captured.

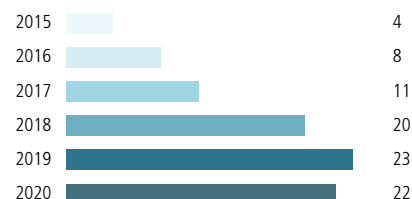
WATER USAGE (LITRES PER KG OF FINISHED PRODUCT)¹



¹The vertical line shows our target

Of the total water used, 39% was supplied from third party water companies, 22% was water recycled and reused within our plants, 21% was ground water from wells on our sites and 18% was from surface water extraction, mainly from rivers. As shown in the graph below our recycled water percentage dropped slightly in 2020 compared to 2019, from 23% to 22%. This reflects that some of the units where we have the highest recycling percentages, especially in India, were more heavily impacted by pandemic closures and hence represent a smaller portion of our overall production mix than in 2019. We expect that this will recover in 2021, and continuing to increase our recycling of process water remains one of our objectives.

RECYCLED WATER (% OF RECYCLED WATER USED IN PROCESSING)



IDENTIFYING OPPORTUNITIES FOR WATER SAVINGS

We have continued to develop our use of unit level water balance analyses alongside zero-based water requirement calculations to identify opportunities for water saving projects. Shown on the next page is a high-level water balance chart that shows the overall pattern of water use in 2020 across all Coats dyehouse manufacturing locations. This consolidated snapshot of global water use shows the importance of dyehouse use, the significant amount of water recycling we do and the other significant areas of water use. It also shows the sources of water supply and the destinations for treated water after discharge. During 2021 we will be extending this methodology to include Spinning and Twisting units, some of which are significant users of water.

The benefit from this kind of analysis, when done at a unit level, is that the opportunities for reduction in water use are readily apparent, especially when the actual consumption is compared to a zero based build up of the minimum water consumption required for the product mix and volumes produced in the unit.

There is also a huge benefit from comparing water consumption between units as this highlights innovative practices that can be shared. Our "Rest to Best" programme searches out these opportunities for wider use.

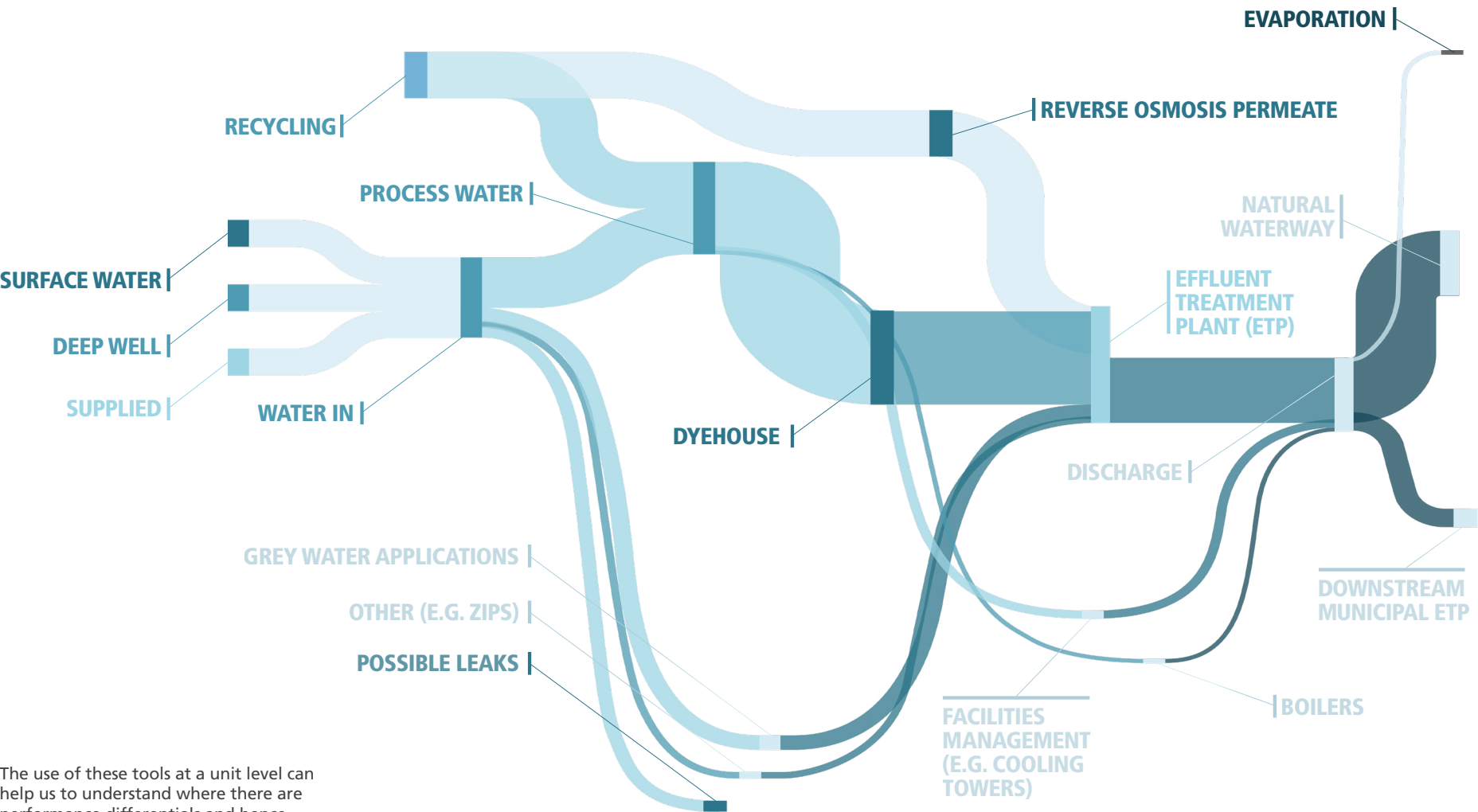
MAKING IT HAPPEN

I am engineering manager for our business in Bangladesh and ensuring optimal water use is a key part of my role. I work closely with my team and my manufacturing colleagues in this area. In the business we take a very proactive approach to manage water consumption, analysing our usage and continuously looking for opportunities to reduce it. We did a lot of work developing the Short Liquor Ratio project together with some of our sister plants in Coats, proving that you could adapt traditional machines to work with much less water, and we are proud now to see that more and more units are adopting the learnings from our work. Developing innovative solutions to problems at a country business level is ingrained in the way that Coats operates and our global best practices usually develop from approaches that have been initially developed at a local level.



Mohammad Mizanur Rahman
Engineering Manager,
Bangladesh Cluster

COATS GLOBAL WATER BALANCE



The use of these tools at a unit level can help us to understand where there are performance differentials and hence opportunities between our plants, and this is the focus of our Rest to Best programme, as well as identifying opportunities that exist uniquely within one plant.

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FUTURE TECHNOLOGIES

Our long term vision is to be able to dye without using water either as a dyeing medium or for heating purposes. In 2018 Coats invested \$5m Twine, an Israeli start-up that has been developing digital dyeing of yarns and threads. This technology doesn't use water at all.

Digital textile dyeing is not a new process, but to date it has only been developed commercially for use on planar fabric substrates. Globally a rapidly increasing amount of fabric is now dyed using this technology which is ideal for complex designs, rapid response and small batch sizes. However, dyeing a thread with this technology is much more complex than dyeing a fabric for two main reasons; the substrate is a three dimensional structure that requires dyeing on all sides rather than on one flat surface, and the substrate is microscopic in size compared to a fabric so all the dye management processes need to be highly accurate at very small volumes.

Twine has been continuing to develop its technology to address these challenges, and Coats and Twine have been running successful joint trials during 2020 that have now progressed to the point that Coats has installed a Twine machine in our Turkish Innovation Hub in order to start the process of integrating the Twine machine into our sampling processes. Initially we see the current version of this machine as being suitable for ultra-fast thread sampling, and maybe for some very small production batches. This will deliver substantial benefits to the industry, but the potential impact on reducing water use will require significant enhancements in the productivity of the machine. Dyeing thread in a winding process by the metre, as is the case with the Twine machine, rather than by the kilo as we currently do is challenging because a kilo of thread can contain 10 or more kilometres of thread.

We continue to be optimistic about this technology and the potential it has to revolutionise our industry, and not just in sustainability terms. However, we recognise that there is still a lot of work to do to deliver this vision.

We don't restrict our search for new technologies to digital dyeing. During 2020 we have done another in-depth review of another potentially promising dyeing technology, Supercritical CO₂ dyeing. This technology uses very high pressure CO₂ as a dyeing medium instead of water. The very high pressures involved to work with CO₂ in a supercritical state, when it has some of the properties of a liquid and some of a gas, mean that the machinery required for this process is significantly more expensive than the lower pressure machines used for aqueous dyeing. We have closely looked at this technology several times over the last 20 years as it has been in development. The thread industry is particularly challenging for this technology because of the wide range of dyeing batch sizes that we produce, and our most recent study has concluded that the technology is still not at a maturity level where it can be economically deployed in our environment. We will continue to review this as the technology develops.

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PAUL TURNER
PRESIDENT,
BUSINESS
OPERATIONS

LEADER'S VOICE

We have been focussed for many years on reducing the use of energy in our manufacturing processes, and have made substantial progress. However, with the technology currently available for thread processing there are no obvious options for further significant reductions in energy use, though we have expectations that in the future the use of digital dyeing technology might significantly reduce the energy intensity in this process. Our principle focus meanwhile continues to be on optimisation in production planning and operations to ensure that all our processes are running at the best loadings to ensure efficient energy utilisation. The example of what we have done with compressors in North America exemplifies this approach.

In addressing the energy challenge the source of our energy is now of the highest concern to us, as we need to ensure that our greenhouse gas emissions decline in line with our commitment to Science Based Targets, and transitioning to renewable energy sources is, correspondingly, a very high priority for us. Since the energy market is different in each country in which we operate our procurement teams are vital for understanding the current and likely future options for enabling this transition, and these teams will be deepening their understanding in this area during 2021.

USING LESS ENERGY

During 2020 our energy consumption was considerably lower than in 2019 due to reduced production volumes as a result of the pandemic. We used 8.89 kWh/kilo which is 3% lower than our rate in 2018, and so on a good track towards our 2022 target. While these results are very positive, and reflect in good part the ongoing energy efficiency work that we have still managed to keep going this year notwithstanding the pandemic, the degree of improvement shown in them is somewhat overstated because of changes in our production balance caused by Covid. Our internal spinning and twisting operations have been proportionally more heavily impacted by mandated plant closures than our dyeing and finishing operations, which means that our overall production has been less vertically integrated than is normal. This reduction in internal processing has been balanced by an increase in sourcing of grey thread from external partners, but the energy consumed by those partners is not included in our data. At the same time, as with water consumption, energy efficiency is substantially negatively impacted by drops in production volume. Given the complex and dynamic nature of these changes it is difficult to identify the underlying trend without the impact of the pandemic, but we expect some of the apparent improvements in energy efficiency to be unwound as our production balance returns to normal.

ENERGY USE (KWH PER KG OF FINISHED PRODUCT)¹



¹The vertical line shows our target

During 2020 we have managed to continue implementing some of our previously identified energy efficiency projects, but the many pandemic impacts to our people and the business have made it impossible to complete everything that was planned for the year. We are planning a programme to catch up on these projects in 2021.

For example; we installed an exhaust gas boiler on our generator exhaust in Bangladesh. This uses the 400°C heat in the exhaust gas to generate steam for use in dyeing, thus reducing the demand on the steam boilers, and preventing a valuable source of energy from going to waste. In Marion, USA we replaced an air blower on our drying machine with a larger capacity one, running off the same motor which has reduced the drying time allowing us to reduce the operating hours per week by 20. By installing inverters in some of our air compressors in our Indian spinning plants we reduced energy wastage when air demand is below the full capacity of the compressors, saving over 20% of the energy use.

Our ISO 50001 certification programme was also impacted by the pandemic and had to be put on hold during 2020. In these circumstances we have changed our approach to an expectation that all of our units are aligned to ISO 50001 but not necessarily certified.



OPTIMISING ENERGY USE

Compressed air is used in many of our processes and in many plants we have a bank of compressors operating to provide sufficient air pressure. In our Marion, North Carolina plant, we have 7 compressors that have historically run continuously with the air pressure varying between 100 and 110 psi depending on demand. During 2020 we developed a control system linked up to a demand expander which means that the compressors now start up in sequence to maintain a constant pressure of 95 psi, reacting to the fluctuations of demand at all times. About 90% of the time at least two compressors are now not required to run and sometimes we have 3 or 4 idle. This has allowed us to reduce the energy consumption in compressed air supply by 30% compared to the previous system. The modest cost in the demand expander and control system will be recovered in well under a year. We will be looking to extend this practice across other units in 2021.



THE TRANSITION TO CLEANER AND MORE RENEWABLE ENERGY

We are committed to helping to accelerate the transition to more renewable and cleaner energy sources.

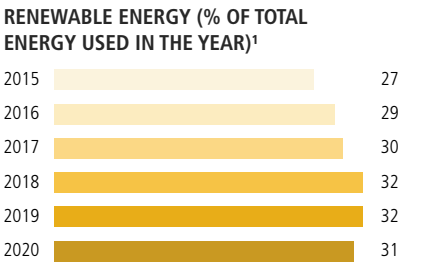
We announced in 2019 that we had completed the transition away from coal in all of our plants, so during 2020 there has been no use of coal in any Coats factory.

Our plants use fossil fuels mainly for heat generation and we use natural gas, biomass and oil for this purpose. This is often dependent on the fuels available in the market, country by country, but our aim is to continue to prioritise the use of biomass over gas and gas over oil. At the moment our global split is around 80% gas, 11% biomass and 9% oil.


Of our total energy usage about 50% is provided in the form of fossil fuels which we burn, while the other 50% is in the form of electricity that we purchase from external providers. Our goal for this is to continue to shift to certified renewable electricity. This can be in the form of on-site roof top solar arrays, such as we have in a number of locations in India, Vietnam and the USA, but most of it has to come from off-site renewable sources. The electricity use intensity in a typical Coats plant means that the physical roof footprint, when covered in solar panels, will only be able to supply between 5 and 10% of our electricity needs, so the supply of off-site

renewable electricity is fundamental to achieving this transition.

With every electricity contract renewal we explore the opportunity for shifting to certified renewable electricity, and where feasible we make that switch. In the case of Mexico we have recently signed a 5 year supply agreement that will start in the middle of 2021. This electricity will come with renewable energy certificates (RECs). In Colombia we have just signed a 3 year agreement that does not initially provide us with RECs as the supply (predominately hydro) is not yet certified, but as new solar capacity and certified hydro capacity is created during the contract we will get access to these RECs. At the moment 6% of our electricity purchases are certified renewable.



¹This graph is based on the energy generation mix of the fuels we burn and the electricity we buy. Not all of it is covered by RECs. The drop in renewable energy % in 2020 is caused by pandemic production imbalances.



Todd Wegenast
Head of Environment and Compliance,
North & Central America

MAKING IT HAPPEN | IDENTIFYING OPPORTUNITIES FOR ENERGY REDUCTION

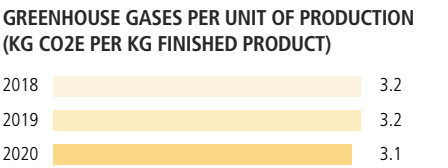
As Environmental Manager for our North and Central America cluster promoting energy reduction projects is a key part of my role. Identifying and prioritising areas of heavy energy consumption is the first step. Then we have to step back from our established operating practices and challenge ourselves to find ways to do things differently in order to reduce energy use. Key to this is making sure that whenever a motor is running it is doing it at the optimal loading. At times urgent customer delivery schedules don't allow us to achieve this, but ensuring that these kinds of compromises are understood within the business is key to what I do. It is very easy to flick a switch on, but energy that is wasted by doing that is gone for ever!

REDUCING EMISSIONS

As noted on pages 10-11, Coats is committed to achieving emissions reductions that will align to the Paris COP21 targets, under the Science Based Targets initiative programme. Under that programme our commitment is to an absolute reduction in emissions, but we also monitor our emissions intensity and continuously look for ways in which we can reduce the emissions from our day to day activities.

For example in our Panoli plant, India, we have adjusted the fuel balance used towards using more natural gas instead of fuel oil with a 6% saving of emissions resulting from this approach.

During 2020 our absolute emissions have obviously dropped considerably due to the impact of the pandemic on production levels, and the production imbalance mentioned above also makes it difficult to compare our emissions intensity against 2019. The figures shown below somewhat overstate the reduction and we expect that some of this improvement will be unwound as our production balance stabilises during 2021.



MAKING IT HAPPEN | RENEWABLE ENERGY PROCUREMENT

As a procurement manager my prime concern in the past has been to ensure that we have continuity of energy supply at a reasonable cost. However, over the last 18 months we have been renegotiating our electricity supply in Mexico and have had as a central requirement that it come from a supplier that can provide certified renewable electricity. This has been a long and complicated process as the regulatory environment for this in Mexico has been changing while we have been in discussions and we have had to adapt our strategy in response to that, and even, at one point, start from scratch again. It has been a process of constant learning, working with multiple partners, and we now have a multi-year supply agreement signed and will start to receive renewable electricity through it in late 2021. While obviously the guarantee of supply and cost are still crucial, we have found that dealing with suppliers that have the same environmental goals we have - to reduce greenhouse gas emissions - has led to much closer alignment of interests during the negotiations. The fact that we have reached an agreement that promotes additionality in renewable generation and provides guaranteed renewable supply at no additional cost to us is hugely motivational to me and my colleagues.



Jorge Gastelum
Procurement Business Partner, Mexico and Central America

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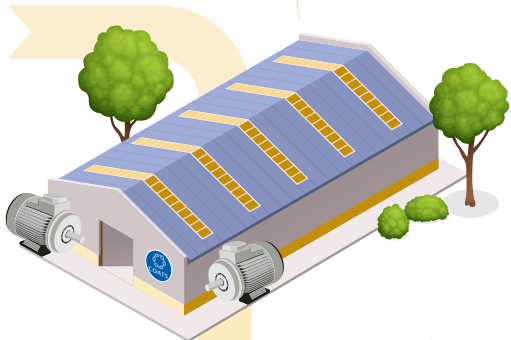
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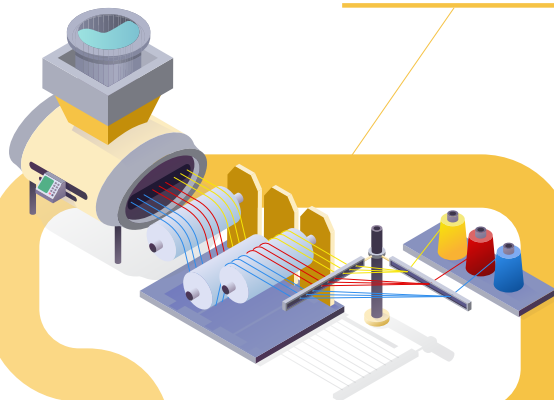
SPINNING & TWISTING

Accounts for around 27% of our energy consumption mainly in the form of electricity for powering process equipment



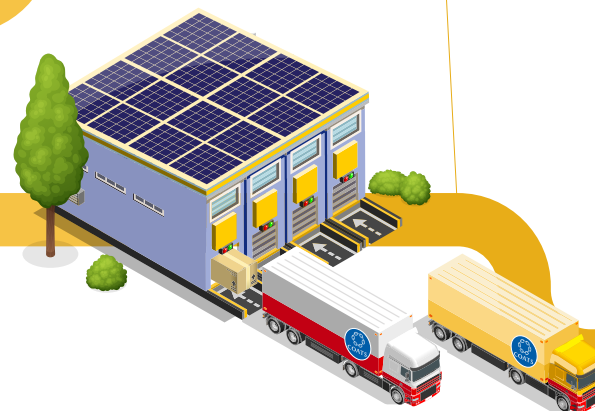
COATING & FINISHING

Accounts for around 12% of our energy consumption, mainly in the form of electricity for process power



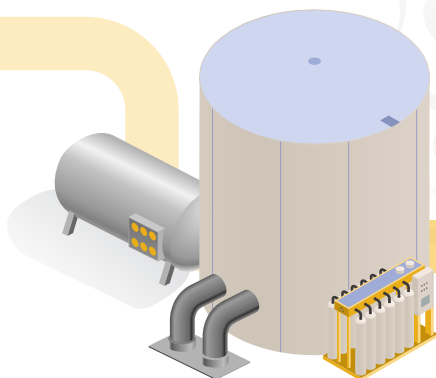
WAREHOUSING

Accounts for ~2% of our energy, mainly electricity for lighting purposes



DYEING

Accounts for around 58% of our energy consumption. This is mainly as steam for process heating (~65%) with the remainder being electricity to run pumps and other machinery





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EFFLUENT & EMISSIONS

EFFLUENT & EMISSIONS



STUART MORGAN
CHIEF LEGAL &
RISK OFFICER AND
GROUP COMPANY
SECRETARY

LEADER'S VOICE

While no common global standards for effluent quality existed, Coats developed and used its own global effluent standards. We did this because we consider that the environment is equally precious everywhere and we wanted to be certain that we were operating to the same high standards in all our plants, even where the local legislation was not as demanding.

Legislation will continue to vary widely from country to country, but since 2016 we have been members of the Zero Discharge of Hazardous Chemicals group, and are wholly supportive of the attempts being made by this body to establish common effluent standards and reporting transparency across the global textile industry. We have now adopted these standards as our own global standards and are reporting against them biannually via the organisation's portal. In addition, all of our major plants have constant online monitoring of key effluent parameters to ensure that effluent never strays outside accepted limits.



CARING FOR A SHARED RESOURCE

Water is a crucial resource for many of our processes, but we are only temporary custodians of this resource and we need to ensure that we recognise this by returning it to the environment in a fit state. Our long term vision is to work with processes that are not water-dependent, and that where we do need to use water we supply our needs as much as possible from internal recycling.

During 2020 67% of our process water was discharged as effluent. This is an increase compared to 2019 (62%) because some of our units with the highest water recycling levels, and hence lowest effluent discharges, were more impacted by pandemic closures during the year. The underlying level of water recycling in our system has not changed in any meaningful way this year.

All of our effluent discharge needs to comply with local licence requirements, whether it is discharged direct to an external treatment plant or is treated in our own plant prior to discharge. Discharges are also tested by certified laboratories periodically and reported against the Zero Discharge of Hazardous Chemicals (ZDHC) targets that are now used as our internal effluent quality standards. The ZDHC standards therefore have replaced the Coats Effluent Standards that we have been using for many years prior to this.

Country or community-level discharge requirements are constantly evolving and we

obviously need to keep abreast of actual and potential changes, especially as changes can sometimes trigger the requirement to upgrade effluent treatment plants, which takes time to plan and implement. For this purpose we use a global register of legislative changes which covers all the countries in which we operate and which also ensures that we have in place the correct operational permits for each of our locations, and that any incidents are reported.

As the chemical input load to an effluent treatment plant varies depending on the upstream processes, continuous monitoring of key parameters is essential to ensure that the plant is meeting requirements at all times. All of our key sites have automatic monitoring systems in place that are constantly measuring five key criteria; temperature, pH, biological oxygen demand, chemical oxygen demand and total suspended solids. These measurements are taken at the final discharge point and are made every 30 seconds. This data are then fed to an online dashboard that issues alerts to nominated staff if warning limits for any of the criteria are triggered, allowing action to be taken before a discharge limit is breached. This highly responsive system has been important in ensuring that the root causes of any imbalances in the effluent treatment processes are quickly identified and addressed.

We have developed and tested an enhancement of this system whereby any breach of a limit automatically closes the effluent discharge valves and returns the treated effluent back to

the start of the effluent treatment process so that it can be reprocessed, and the valves for discharge will only re-open when all criteria are within limits again. We regard this system as being best practice and were planning to start implementing it in units during 2020. Because of the disruptive impact of the pandemic we had to put these plans on hold, and the programme will restart in 2021. This project exemplifies the broad-based approach we take to innovation activities, with projects touching many areas of our business activities and processes as well as in new product development.

Over the past 5 years we have spent over \$13m on effluent treatment plants and related infrastructure and this spend will continue in 2021 with projects planned for Shanghai and Ho Chi Minh City

Currently we have 9 sites that are certified to ISO 14001. However, all sites in Coats utilise most of the elements of an Environmental Management System and are expected to meet the criteria for certification. We have global procedures in place around permits management, and corrective actions and globally consistent roles and responsibilities throughout the organisation. We also have a comprehensive training programme that is available online across the business and which includes 20 different environmental modules, and which is underpinned by frequent live training sessions on different topics.



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HORANA

Our Sri Lanka plant is surrounded by lush agricultural land and domestic habitation. Water is relatively abundant in the area, but the need to ensure that our industrial activities are not damaging to our neighbours has led us to implement a water treatment and recovery system that sees us now recycling 90% of our effluent back into process water, by a combination of chemical and biological treatment and reverse osmosis. The remaining effluent is chemically treated before safe disposal. This system has been fully operational since 2019 and, in normal circumstances would see us recover and reuse over 150 million litres of water per year. The infographic on page 24 describes this system.

EFFLUENT & EMISSIONS

ZERO DISCHARGE OF HAZARDOUS CHEMICALS (ZDHC)

ZDHC is the foremost textile industry body aimed at reducing the chemical impact of the industry on the environment. Having originally been launched by six leading brands it now has 30 Signatory Brands, 50 Chemical Industry affiliates, 35 Textile & Footwear Industry affiliates (including Coats), 30 Solution Provider affiliates and 22 Associate organisations. It therefore covers the chemical inputs, the processing and the testing and treatment of effluent, all under the leadership and commitment of major brands.

We signed up to the ZDHC programme in 2016 and committed to aligning our effluent standards with those of the programme in 2018. We adopted the ZDHC conventional parameters with foundational limits as our Coats internal standards in 2019. Initially these limits were applied only to effluent discharged from the factory, but in 2019 the scope was expanded to include sludge. Sludge is essentially the solid residue created during the effluent treatment process, during which some chemicals are precipitated out of the effluent in order to clean it. While some contaminants in effluent can be destroyed through the treatment process, in other cases this is not possible as the chemical remains either in the effluent or in the sludge. Historically

much effluent treatment technology has been aimed at removing chemicals that were unwanted in the effluent precisely by ensuring that they ended up in the sludge. The focus on analysis of effluent and sludge, means that for these durable chemicals the only option is to prevent them being used in processing in the first place. We are wholly supportive of this approach and are working with our key dye and chemical suppliers (many of whom are ZDHC affiliates themselves), to work out how to continue to reduce the chemical load needed to successfully process the fibres that we work with. We have three countries where there is no facility that is able to test for ZDHC compliance (USA, Honduras and Colombia) and for the moment these have to be excluded and are out of scope of our testing. They are however, subject to the same internal controls as all of our other plants.

Our goal is to have all of our units meeting ZDHC standards by 2022. During 2020 74% of our effluent and sludge in those countries where testing is possible was compliant with the ZDHC standards. On a like for like basis (excluding USA, Honduras and Colombia) our effluent alone was 63% compliant in 2019, but based on initial testing of our sludge the combined results of effluent and sludge were around 34%, so this shows that we have made significant progress this year in terms of both effluent and sludge compliance.

REMOVING HAZARDOUS CHEMICALS FROM THE SUPPLY CHAIN

Coats has been continuously developing and enhancing its Coats Restricted Substances List (RSL) now for 16 years and this very comprehensive list meets the strictest requirements from any of our customers globally. Working with our suppliers each year to ensure that all of our inputs comply with our RSL means that we ensure that hazardous chemicals are reduced or eliminated from our supply chain. This obviously links to the work noted above in terms of reducing the chemicals used in processing, but also ensures that our products are safe in use.

We also focus on the environmental performance of our upstream supply chain. This is one of the four topic areas covered in our Supplier Code and which our suppliers commit to and which we audit where we perceive a risk. As detailed on page 30 we have undertaken a significant number of audits since this programme started and have recently transitioned to exclusively using an external body, Bureau Veritas, to do our audits.

MAKING IT HAPPEN | MANAGING WATER IN AREAS OF SCARCITY

As environmental manager for the India and Sri Lanka cluster my responsibility covers some of Coats' biggest units and which is also the region where we have the most advanced effluent treatment systems. Through a combination of reverse osmosis plants and zero liquid discharge units in key locations, around 88% of all the effluent created in the region is treated and reused as process water again. This means that we are ensuring that our operations are having the least possible environmental impact and that we are minimising the local water stress from our operations. In a region where there is serious water scarcity in some parts, being responsible custodians for the water we use is essential for the long-term viability of our operations.



Sivakumar Alagiriswamy
Head of Environment
and Compliance,
India cluster

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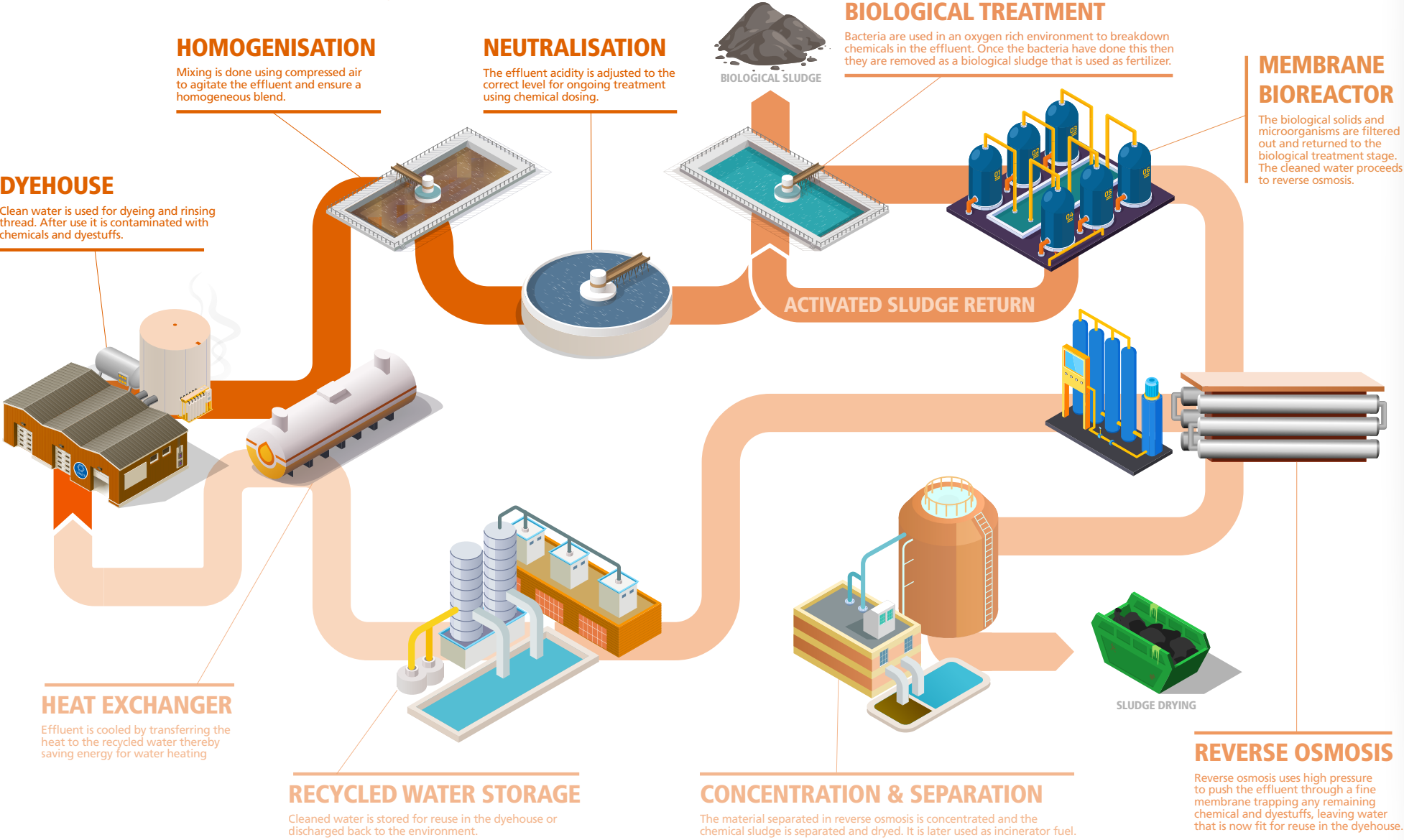
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MODERN EFFLUENT TREATMENT



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MONICA MCKEE
CHIEF HUMAN
RESOURCES
OFFICER

LEADER'S VOICE

Employing people from over 60 nationalities and different environments around the world normally means that we deal with multiple different social and people issues at any one time. This was clearly not the case in 2020 as the pandemic deeply impacted on our activities across all our sites, and it was, by a long way, the single defining issue of the year. The crisis touched every single Coats employee and their families in one way or another, and, undoubtedly, the fact that we were dealing with the same issues in multiple locations simultaneously or on close succession helped bring the global Coats family together to deal with the challenge.

Our social media channels have been alive all year with experiences, suggestions and messages of support. We have also developed our ability to broadcast clear, consistent and universally relevant messaging directly from top management across the whole organisation, combined with opportunities for direct feedback. Pulse surveys during the year have helped us to be sure that communications were functioning effectively.

Notwithstanding the impact of the pandemic and the need for the whole organisation to pivot to deal with it, we were still able to continue to make progress in some crucial areas of our social agenda. This was especially the case in completing our Living Wage analysis, the conclusions from which are now being actioned where appropriate.

HEALTH, SAFETY AND WELL BEING

Health & Safety has always been top of our priorities, but one effect of focusing all resources on managing the pandemic and avoiding high risk activities was that our programme of normal activities under our Journey to Zero strategy was interrupted early in the year. This was especially noticeable for employee training where the number of hours per employee dropped from 29 in 2019 to 23 in 2020. As a result of this we saw an increase in incidents in our plants, with a consequent rise in the recordable incident rate, climbing from 0.50 in 2019 to 0.59 in 2020. In our view this is a clear example whereby a drop in a key preventative measure or leading indicator results in an increase in actual incidents, and reinforces the importance we have given to delivering improvements in all the leading indicators in order to deliver progress in the lagging incident rate. We have the processes and resources in place to understand where the issues are and in 2021, as well as continuing our fight against Covid, we will refocus our efforts on our Journey to Zero strategy which was seeing very encouraging results on our leading and lagging indicators before Covid struck.

After a drop at the height of the pandemic we have already seen a steep recovery in the rates of hazards reported and improvement actions completed, both of which measures improved significantly versus 2019.

We continue to focus also on commuting safety, with training and awareness sessions frequently running in our units. We track and investigate all incidents (as we do for work related ones) and saw a reduction in our incident rate to 0.37 in 2020 (0.42 in 2019)



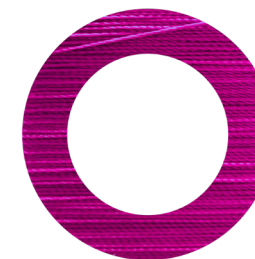
PANDEMIC RESPONSE

Thanks to our strong Health & Safety culture and the momentum established in 2019, we were able to pivot early and refocus our prevention efforts towards Covid as soon as it emerged as an issue in our China operations. As a result we were able to develop and roll-out to all of our units a structured response two weeks before the pandemic was declared. This was based on the well known PPRR (Preparedness, Prevention, Response & Recovery) crisis management model. Our cautious and proactive approach to keeping our employees safe continued throughout the year. Actions included: Closing all standalone offices to allow us to focus on the safety of our manufacturing employees, restrictions on travel and visitors to our sites, encouraging employees to wear face masks and demonstrate their creativity through a Face Mask Fashion Show competition, identifying and implementing social distancing best practice in all of our sites, distributing health and safety kits to all employees with items to help keep them safe from the virus, regular awareness training and education sessions to help keep employees safe, using an internally developed mobile app to track and trace cases enabling us to support any employees who contracted the virus, identify any employees at risk of catching it and prevent it spreading, a global approach to re-opening manufacturing sites as lockdowns lifted including policies

and guidelines about social distancing, hand sanitising, temperature screening, disinfecting, and re-setting factory layouts to include one way systems and to allow for social distancing, we were able to use artificial intelligence systems on existing health & safety monitoring cameras in our plants to monitor whether messaging on mask use and social distancing were being adhered to, introducing risk assessments for sales and customer visits as these restarted, creating a recovery matrix to carefully remove controls as the pandemic eases.

Very sadly, by the end of 2020, 14 of our employees had died from Covid infections contracted outside the workplace. The early action we took to change working practices, introduce safety measures and track contacts to 4 levels meant that we did not have a single confirmed case of infection transmission happening in our operations, and a small handful of infections where the source is unconfirmed and could have occurred on site.

Our health and safety efforts did not stop with our employees, we also extended them into the community for example by providing health and safety kits into our local communities and, in India, providing hand wash stations to primary schools and police stations, Covid testing booths and sanitary gloves to health care professionals.



ETHICS UNDERPIN OUR APPROACH

Part of the foundation to our sustainability strategy is a deep commitment to ensuring that all of our activities are conducted in an ethical, responsible and transparent way. We expect our employees and suppliers to deliver on this commitment and we ensure that we provide them with the tools to achieve this.

Our employees are at the heart of our business, and it is only through their talent, knowledge and commitment that we can remain leaders in our highly competitive industry. Ensuring that we can supply high quality and competitive products and services while fulfilling high ethical, environmental and social standards is achieved through engaged and equipped employees working with a growth mentality and a thirst for constant improvement, and with a no-compromise approach to those standards. In return for this commitment we ensure that our people have a safe, respectful, fair and inclusive work environment and opportunities for development.

We fully support the United Nations (UN) Guiding Principles on Business and Human Rights in our operations. We uphold the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core International Labour Organisation (ILO) Conventions and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the related Due Diligence Guidelines for the Garment and Footwear Sector. We do a Human Rights Risk Assessment every two years and the last one was performed in 2019, so was not repeated in 2020. The last iteration showed a marginally declining risk across our employees when weighted by country and employee numbers by country. The Covid pandemic clearly could have a significant impact on Human Rights across multiple countries because

of the economic disruption caused and we will looking to update our assessment as early as possible in 2021, once our external data sources have updated their indices to reflect the impact of the pandemic.

During 2020 the pandemic had a material impact on the ability of our Group Internal Audit (GIA) team to provide their normal schedule of on-site audits. Nevertheless the team continued with their programme of audits, working remotely with the sites. They completed 13 audits in 2020 (10 in 2019). Included within the audit scope are 30 human resource audit areas, many of which are focussed directly on compliance with our policies or directly with Human Rights issues. In total, across the audits, 24 issues were raised and corrected (31 in 2019).

While we always pay our employees at or above the minimum wage, as noted in our 2019 Report, we initiated a detailed assessment of our global remuneration policies against "living wage" methodologies. This work was completed in 2020. We found that in a small number of countries there were some employees who are paid below the relevant living wage benchmark for that country or location. These cases will all be resolved during 2021 and we will continue to benchmark ourselves to ensure that all of our employees are paid at or above the living wage.

We have a range of policies and standards covering the full range of ethics and compliance issues that lay out what we expect from our employees, our suppliers and other partners. These include, but are not limited to our Ethics code, Code of business conduct, Competition, Anti-bribery and anti-corruption and our Supplier code. We uphold and pursue the aims of the UK Modern Slavery Act of 2015 and the California Transparency in Supply Chains Act of 2010 and publish a statement on

our website that discloses what we are doing to prevent modern slavery in our operations and supply chains".

Our training cycle for our key compliance packages, covering Ethics, Competition Law and Anti-bribery & Corruption is biennial, and all relevant staff undertook the training using updated on-line training and testing during 2020. In total over 4200 completed the training. In addition all senior and customer facing employees (over 4100 employees) were required to self-certify their continued compliance to our Ethics code. We have an in-house training package on Modern Slavery which was implemented across the same population in 2019. During 2020 this training was undertaken by new joiners only, with nearly 700 people completing it during the year.

Opportunities for the senior management on-site Ethics workshops that we have run previously were frustrated due to pandemic travel and face to face meeting restrictions. However, we kept our 'Doing the right thing' programme active through virtual meetings. The main global event was a company-wide open discussion forum on our internal social media platform. This took place on Global Ethics Day on the 21st October with over 600 employees actively participating under the leading theme of "#Speak Up". This meeting tied in to townhall meetings taking place in many Coats locations on or around the same day. This is the second year that we have run participative company wide discussions like this on Global Ethics Day and attendance increased 20% on the 2019 session. During the course of the hour long session over 200 different conversations were initiated and developed. This participative way to build direct engagement and discussion around important issues has proven highly successful and we will continue to build on this positive experience.

Our Whistleblowing Hotline continues to be well used and received 88 incidents (119 in 2019). Not all the investigations have been closed, but of those finalised 22% were upheld (30% in 2019). In addition our GIA team review corruption issues during their audits, and no cases of corruption were detected.

MAKING IT HAPPEN |

DIVERSITY & INCLUSION DURING COVID

We have had a strong and award-winning diversity and inclusion programme in Turkey for a number of years, with a wide local network operating in the business. As in so many other ways however, 2020 presented new challenges to our programme.

As the pandemic developed we were acutely aware that there was a higher potential impact on our female colleagues who might be expected to take up more of the increased domestic burden during lockdowns and who might also be subject to increased likelihood of domestic violence. In order to counter this we organised expert-led additional training sessions on mental health, emotional intelligence and domestic violence. These were well attended by employees and their families and feedback was very positive from all the sessions.



Gulden Cevik
EMEA Cluster
Learning Manager

GREAT PLACE TO WORK

Our target is to have all of our key units certified as Great Place to Work® (GPTW) locations, or under equivalent awards. Our plan for 2020 was for a number of biggest units to be accredited, but since the process involves site visits and employee interviews the whole programme had to be put on hold because of the pandemic. Our Brazilian operations were able to renew their certification during the year, but some other units that had certifications were unable to renew them. For this reason the percentage of our employees currently working in a certified location has dropped from 19% in 2019 to 6% in 2020. Notwithstanding this we are still determined to deliver our target of 80% of employees covered by the awards by 2022 and have an ambitious plan to accelerate towards that target in 2021.

LISTENING TO OUR PEOPLE

Getting direct and regular formal feedback from our employees is embedded into our culture and is vital as it allows senior managers and the Board to pinpoint issues early. We have one Non-Executive Director, Fran Philip, who is the Board Representative for Workforce Engagement, and she held more than 20 virtual sessions with representative groups from across the Coats units, covering all of our clusters. She also had meetings with all of our Cluster Managing Directors.

In 2020 we had planned to run a full Employee Engagement Survey as well as move to a model of 'continuous listening' via a series of pulse surveys. Unfortunately due to Covid we had to postpone the full engagement survey to protect the safety of our front line employees who do not have access to their own computers. However, we did run a series of pulse surveys with our wired employees.

In the early months of the pandemic we asked them about our response to Covid, our communication, whether they had the resources they need and about their well being. Results across the board were positive. We also ran some other pulse surveys, one to test understanding of, and alignment with, our company priorities, and for some of our locations we also ran surveys to find out how people feel about returning to the office. Again the results for these were positive. The main learning from these surveys is that while achieving a healthy balance between home and work life is the biggest challenge for our staff while working from home, over two thirds want to retain flexibility between home and office working in the future, with very few wanting to return primarily to office-based working. We have therefore published a new flexible working policy that responds to employee needs.

Also in 2020 we piloted a new employee mobile app. Forming part of our wider employee experience strategy, the app has the potential to allow us direct two way communication with all our employees in their own language as well as give them access to our self-service HR tools such as annual leave booking.

We support employees who wish to join labour unions and at the end of 2020 47% of our employees were members of unions (43% in 2019) and 46% were subject to collective bargaining agreements (43% in 2019).

MAKING IT HAPPEN | DIGITALIZING HEALTH & SAFETY

We have been building our digital capability in health & safety for a number of years, and this is another example of the broad scope of our innovation activities, which are not exclusively focussed on new product development. Initially this was dedicated to data collection and reporting on incidents, but more recently it has developed more in the area of preventative measures. While the ultimate measure of success is obviously the number of incidents, this is a lagging indicator and the only way to ensure that we consistently drive this down is to focus on the leading measures that will underpin safety in the workplace and in commuting. Proactive identification of hazards and the development of remedial actions and training are all leading measures that are managed through our digital platforms.

During 2020 we started to use artificial intelligence (AI) in our workplace camera network to identify activities that might be unsafe. This means that we can have

many more "expert eyes" permanently focussed on our activities identifying new hazards and ensuring that established safe procedures are not subject to short cuts. This AI facility has also helped us to permanently monitor compliance with Covid safe measures such as social distancing and mask wearing, and identify areas where it might be difficult for people to maintain these vital measures, so that we can continuously improve our guidelines. We have clear guidelines in place to define the scope of use of this information and to protect privacy and prevent abuse.



Sean Alvarez
Group Health, Safety
and Environment
Director

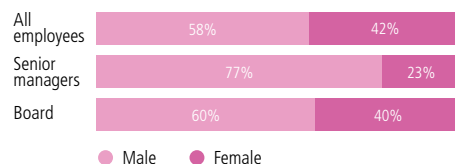
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CONTINUOUSLY PROMOTING DIVERSITY AND INCLUSION

Our aim is to promote a workplace environment that is inclusive, respectful and diverse. We believe that diversity of all sorts in the workplace should be encouraged and supported. We employ people from 60 countries (60 in 2019), and there are 31 nationalities represented in our senior management group (31 in 2019). We track our gender diversity regularly and at the end of 2020 the percentage of females at Board level was 40% (up from 33% in 2019), with the appointment of our first female Executive Director, while within the senior management group the percentage of females was 23% (24% in 2019).

We are delighted that in 2020 our Brazil team was recognised as a great place to work for women. Coats also ranked 45th in FTSE250 companies in a report released by the Hampton-Alexander Review: FTSE Women Leaders

GENDER DIVERSITY



A more detailed breakdown of our gender balance by function is shown on page 31.

We remain committed to increasing the diversity of our workforce and despite the Covid pandemic continued to take action in this area. Inclusion has been ever more important during Covid. With so many people working from home it was important that people remained connected and we were able to support this through our communications as well as through our Learning Zone sessions and encouraging line managers to keep in touch with their teams regularly. Throughout all of the training courses we ran in 2020 we ensured that there was a good representation of both men and women. In addition we continued to run our Diversity and Inclusion Network calls and held two in the second half of the year. These were well attended and covered subjects such as our support for the Black Lives Matter principles and how we were supporting inclusion.

Highlighting our commitment to diversity, we were delighted that in 2020 our Brazil team was recognised as a great place to work for women and we signed up to the Confederation of British Industry's 'Change the Race Ratio', a campaign to increase racial and ethnic participation in British businesses.



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ENABLING GROWTH

During Covid we took the decision to move all of our training online. In 2020 our training portfolio consisted of continuing our most successful long term programmes, introducing new courses to supplement those and specific Covid related courses.

In 2020 our employees increased their training hours in Minerva, our digital learning library by 40%. The nearly 3,000 employees accessed 1,700 courses across 13 topics including Growth Mindset and Conflict Management. Our Management Capability Development programme has also continued with two cohorts in EMEA and the US taking part in the blended learning programme consisting of eLearning, webinars, psychometric assessments and coaching. In 2020 Our Supervisory Skills training remained in place with short webcasts on 12 topics from 'Building the Team' to 'Relating to Others'.

We have built on our Learning Zones concept that launched in 2019 and delivered 280 training hours in seven languages in 2020 via this very successful format. As well as general topics such as Emotional Intelligence and Collaborative Negotiations we offered Covid specific courses such as Productive Remote Learning. Significantly, for the first time, we extended one of our courses 'Wellbeing for Coats Families' to family members of our employees to support them during the Covid pandemic.

New for this year has been Subject Matter Expert training which is a series of peer-to-peer sessions led by internal experts. We ran 14 sessions for more than 300 participants across topics such as Project Management and Data Analytics.

Underpinning all our employee development programmes is our performance appraisal process. This is used to identify career aspirations and developmental needs for our people leading to the creation of bespoke training and other programmes. It also forms a critical input into our succession planning processes where we seek to develop internal talent pools for all areas.

RESPONSIBILITY FOR OUR SUPPLY CHAIN

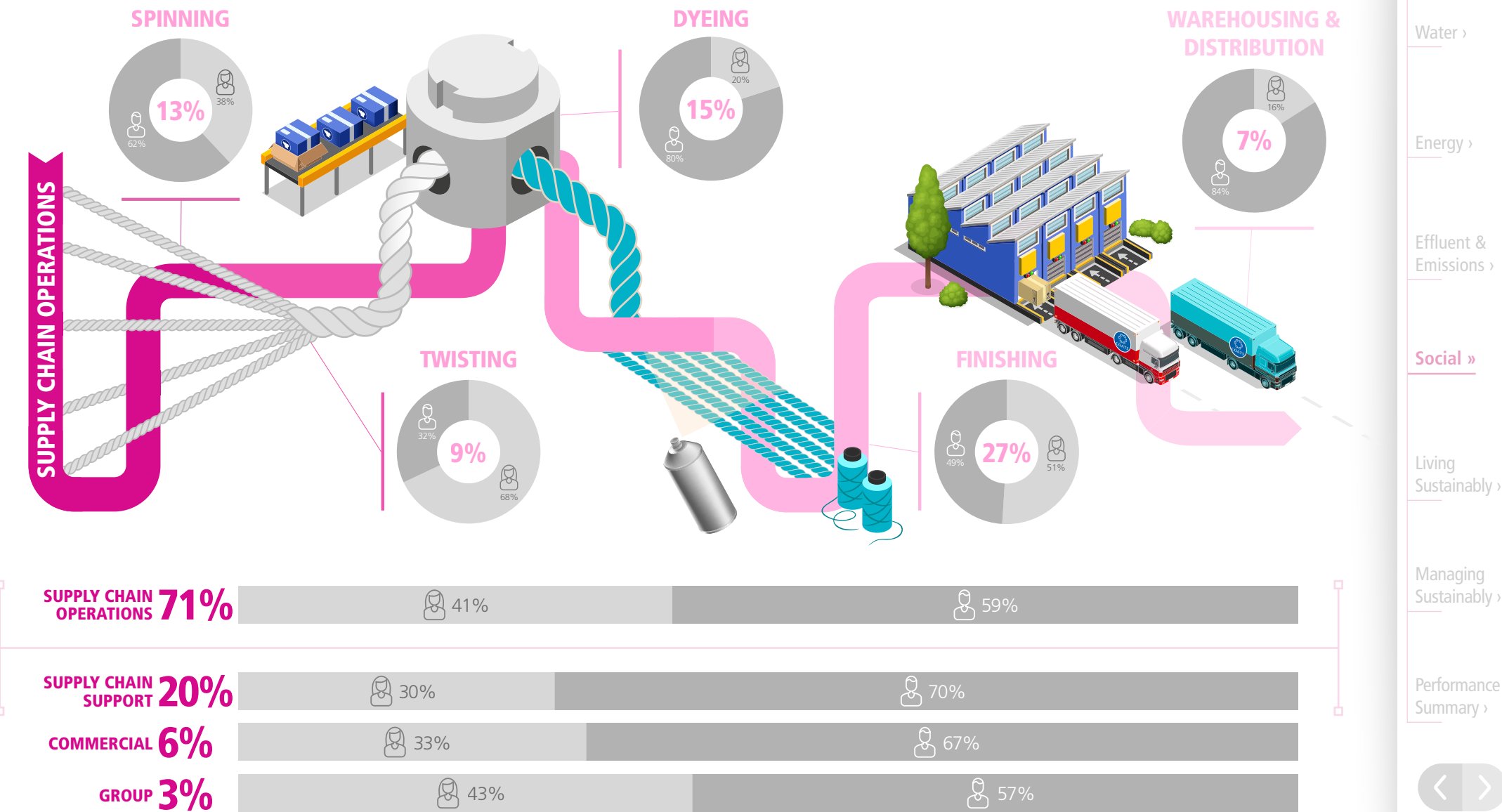
Given the complex supply chains in our industry we recognise that it is not enough for us to take ownership just for our own behaviour but that we must ensure that our direct and indirect suppliers are also operating in a responsible way that aligns with our principles, ethics and approach to sustainability.

We have updated and reissued our Supplier Code in 2020, as planned. The main changes are an increased focus on modern slavery concerns and a broadening of our environmental expectations, especially around emissions reductions. The relaunch was also the opportunity to clarify the roles and responsibilities within Coats around the implementation of the Code. During 2019 we started to move from a hybrid model that used both internal and external audit teams to monitor compliance in key and high risk suppliers to one that used purely external auditors. Bureau Veritas, our partner for this audit work, have completed 92 audits using our template but because of the pandemic from April onwards the programme had to be suspended as most of our suppliers, like us, were unwilling to have on-site visitors.

The programme will continue in 2021. From the audits done to date 89% have been rated as good or acceptable with 11% rated as needing improvement. None have been rated as having a high risk. All suppliers identified as requiring improvement will be re-audited in 2021. To date we have ceased to trade with one supplier because of their lack of compliance to our Code. The decision to stop trading with them was taken after they confirmed that they would not take action on the issues raised from the audit.

Highly critical issues within our Supplier Code scope, such as cotton sourcing and conflict minerals are not applied only to our tier 1 suppliers but extend to our tier 2 and higher suppliers

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COATS COMMUNITIES

“
60 million
feet of thread
donated for the
production
of PPE.”

“
7500+ H&S
kits distributed
within our local
communities
around
the globe.”



COATS CHINA

Employees of Coats China ran a video competition with the theme ‘Fight against Covid-19’. The purpose of the competition was to engage employees in a creative way, to raise awareness, and help maintain physical and mental health of both employees and their families as part of the wider community. Video entries focused on efforts made both at home and within the work environment.



COATS VIETNAM

Coats Vietnam gave 300+ safety kits to people in Da nang city and Hoi An city.



COATS NORTH AMERICA

300 Coats water bottles were donated to students at North Cove Elementary School to help limit interaction and usage of water fountains.



COATS INDIA

A hand washing station was donated to the local community surrounding our site at Ambas.



COATS SOUTH AMERICA

Our partners helped Coats to distribute 2365 Health and Safety Hygiene kits, with educational reinforcement information, to local communities in Argentina, Colombia, Guatemala and Brazil.



COATS HUNGARY

Managers in Ujpest visited nearest primary school and Twist Oliver Foundation that operates a homeless shelter in the neighbourhood of Coats Hungary. Coats Managers presented Covid precautions to raise awareness and gave packages of safety kits.

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COATS COMMUNITIES



COATS HONDURAS | NOVEMBER 2020

During the months of October and November 2020, Honduras was affected by two major hurricanes, resulting in the loss of housing, livelihoods and personal belongings due to subsequent flooding.

The families of 34 Coats employees residing in the affected communities, were among those impacted by these events. In response, Coats Honduras showed support through the donation of refrigerators, stoves, gas cylinders, beds and dining tables to the families of Coats employees who had lost all their belongings.

Coats Honduras also collaborated with the leadership of Parque Indelva to house more than 20 families in the facilities located within the park. Donations such as medical care, food, clothing and sleeping mats were provided for the sheltered families.



COATS VIETNAM | NOVEMBER 2020

Coats Phong Phu and employees donated US\$ 13.5k to the Vietnam Front People Committee in Thua Thien Hue & Quang Tri provinces, providing support to people recovering after the Central Vietnam Floods.



*COATS COLOMBIA / BRAZIL | FEBRUARY 2020

As part of the South America "Coats Solidária" programme, more than 620 school supplies benefiting low-income children were donated in Brazil and Colombia. Activities were run in schools to motivate and inspire children about the importance of education.

*photo taken Pre Covid restrictions



*COATS INDIA | MARCH 2020

Coats India partnered with Akshaya Patra Foundation, sponsoring around 2500 school children as part of the foundation's 'Mid-Day Meal' programme, striving to eliminate classroom hunger, counter malnutrition and support the right to education of socio-economically disadvantaged children.

*photo taken Pre Covid restrictions

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LIVING SUSTAINABLY



ADRIAN ELLIOTT
PRESIDENT
APPAREL &
FOOTWEAR

LEADER'S VOICE

While originally Coats' business was built on cotton as a raw material, for many years now our main raw materials have been plastics like polyester. Our goal for years has been to produce threads that can be used in seams that last at least until the end of a garment's life, and often considerably beyond that. Polyester is an ideal material for this as the combination of strength and elasticity allows for high speed sewing and long seam life. However, we are fully aware that there are downsides to the use of polyester, especially if it cannot be recovered and recycled.

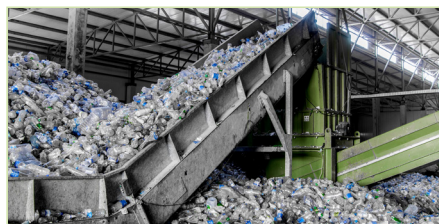
Our aim is to develop a range of products that allows our customers to design garments with a clear end-of-life strategy built into them. In many cases this will entail continuing to use polyester threads (though recycled rather than virgin material) for garments made using polyester fabric. However, it also requires us to develop threads that can be used with garments made from other materials, especially cotton. We are already working with multiple partners across the supply chain to meet these challenges.

A COMPREHENSIVE APPROACH TO WASTE MANAGEMENT

Starting in 2019 we decided to adopt the European Union's Waste Framework Directive and the European Waste Catalogue as the basis for waste management across Coats. During 2020 we have refined the European Waste Catalogue into a Coats Waste Catalogue that contains 35 different waste categories covering every material item that exists in a Coats unit that is not part of a commercial product. The full introduction of the Coats Waste Catalogue has required us to restate waste statistics back to 2018 and to recalculate our target on this basis.

During 2020 we produced a total of 17.6 thousand tonnes of waste. This compared to 25.4 thousand tonnes in 2019. While the absolute volume of waste has obviously been impacted by the reduction in production during the year, the waste percentage has improved significantly in the year, reducing from 16% in 2019 to 14% in 2020.

A breakdown of our waste shows that only about 20% of the waste material on our sites is directly related to our products, with other high volume categories including paper and cardboard packaging (18%), sludge (21%) and plastic packaging (13%). Of the waste generated, 66% is recycled internally or reused externally. The bulk of the remainder currently goes to landfill, although 47% of our units have successfully moved away from any use of landfill for waste disposal.



EXPANDING OUR RECYCLED RANGE

Having launched our first Ecoverde recycled polyester threads at the start of 2019 with a small range of 100% polyester corespun and texturised threads, we have significantly expanded the range during 2020. This now includes a broader range of 100% polyester corespun thread sizes which means that all garment segments can find the threads that they need. We have also expanded the range of substrates to include polyester-cotton corespun, microfilament texturised and embroidery threads. The range will continue to expand in 2021, and we are also extending the availability of recycled material into our non-premium thread offering.

Availability of high quality recycled polymers will continue to be the biggest challenge as we work towards our ambitious target of 100% recycled premium products by 2024. Our products require the highest level of material performance and much of the recycled material available is not suitable for our use. We have continued to develop and qualify new sources of supply during 2020. In the longer term we believe that more circular material flows is the best solution and this is explored on pages 36 and 37. In 2020 the percentage of our premium products made from recycled polyester was 13%, a significant increase from 2% in 2019.



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LIVING SUSTAINABLY

USING ONLY WHAT IS NEEDED

During 2020 we used 115 thousand tonnes of direct raw materials in our products. The bulk of this material is the fibres we use to make our threads. 95% of our products are made from plastics, principally polyester, and 5% is from cotton. All of our plastic products are oil-based and currently most of them are from virgin sources, but as noted earlier we are rapidly moving to recycled materials. While we are aware of the progress made in developing bioplastics, we are concerned about the environmental and social impact of allocating more land to textile fibre production and believe that the future opportunity lies in textile to textile recycling, as described below.

We are very conscious of the social and environmental risks involved with the small proportion of cotton fibre we use and are supportive of the global collaborations that are focused on managing these risks, including the Better Cotton Initiative. We have long had a ban on sourcing cotton grown in high risk areas.

We have a very small amount of animal-based products in our range. This is limited to wool based products that make up less than 0.01% of our sales, and we take care to ensure that this material is sourced responsibly. We have a specific Animal Welfare Policy to cover this.

Our product specifications across all of our ranges are established to ensure that the products are fit for purpose and not over-engineered for the end use. This means that we do not produce or sell more material than that which is required by our customers. We also focus on ensuring that indirect material usage is minimised. This is especially important in the area of packaging as both the materials we buy and the products we sell require packaging to protect them during transport and storage. We address this upstream with our material suppliers and downstream with our customers to work collaboratively to find ways to minimise packaging and, where it is still necessary, ensure that it can be reused or recycled. For example, recently we completed a project with a fibre supplier in the US which replaced virgin Styrofoam packaging, which cannot easily be recycled, with cardboard which is already recycled and can easily be recycled again. We initiated in 2019 a project in Sri Lanka to explore removing plastic bags on our cones. Cone bags are necessary because in many customer locations dust contamination is a problem. Working closely with customers we found that a lot of dark shades can be sent without bags as the risk of dust soiling the thread is minimal. Our next step is to see if we can replace all the remaining bags that continue to be necessary with a compostable bag. We had planned to trial this early in 2020, but because of the disruption caused by the pandemic the project had to be delayed and is now underway again. Another area of focus is the plastic cones that the thread is wound on. We have two approaches here depending on the logistics challenges faced. Where return of empty cones is possible then our approach is to use cones that are robust and can be used repeatedly or recycled if they are damaged. Where recovering cones after use is not possible then we engineer the cones to use as little material as possible.

MAKING IT HAPPEN | TRANSITIONING TO RECYCLED RAW MATERIALS

Before the pandemic hit we were carefully managing the growth of our recycled polyester ranges, balancing supply constraints against growing demand, but our structured expansion plans for 2020 were impacted very early on by the suspension of industrial activity in China in February. This created an immediate hole in our supply chain both from our upstream suppliers and also from our own process capacity. We immediately formed a team bringing together supply chain and commercial colleagues to manage all aspects of supply and demand for these products. Supply constraints were rapidly followed by huge volatility in demand as closures hit different countries in succession.

By managing supply and demand on a daily basis, with clear and frequent communications with our suppliers and customers we were able to ensure that the disruption was minimised and customers were able to continue to produce their garments. As industrial activity picked up again after the first wave and by working hard to qualify more sources of material supply we were able to get our programme back on track for substantial growth.



Alison Harris
New Product Supply
Chain Coordinator

MAKING IT HAPPEN | IMPLEMENTING A COMMON WASTE CATALOGUE

Our units operating in the European Union are very familiar with the European Waste Directive and the very comprehensive waste catalogue and management approach required by that. In 2019 we decided to use that approach as the basis for waste management across Coats and so we developed, during 2020, a Coats Waste Catalogue that is based on the European one but which is narrowed down to the 35 waste types that are most common across our operations.

We trained all of our people on the new system and all units then restated their waste reports back to our baseline year of 2018 to ensure that they were accurate under the new catalogue codes. Inevitably a major recategorization like this raised some issues and we identified a number of areas where the historical records were not comprehensive and so were amended. We now have a system in place that captures a much higher degree of detail on waste generation and disposal and which allows us to track much more accurately the results of the waste reduction activities that we have underway.



Gyongyi Szecsi
Head of Environment
and Compliance, EMEA

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LIVING SUSTAINABLY–CIRCULARITY



**ELLEN MACARTHUR
FOUNDATION**
Member

THE LINEAR TEXTILE INDUSTRY

The bulk of the textile industry currently operates on a linear model whereby virgin fibres are grown or synthesised and then processed into yarns, then fabrics then finished products. These products are then sold to consumers who use them and then dispose of them at the end of life, mainly into a waste stream. The amount of material entering this model as new virgin material and leaving it as waste each year is huge, somewhere in the region of 100 million tonnes. This is an inherently unsustainable and wasteful business model.

A MODEL FOR THE FUTURE

Many brands have been trying to reinvent this model by using non-virgin raw materials, by extending the useful life of clothes and by trying to recover clothing at the end of life. These are good initiatives and can serve as stepping stones to a more sustainable industry. The goal that many companies along the supply chain are now working towards is for waste textile material to be reprocessed back into new textile products, thus creating a circular model that avoids the unsustainable creation of virgin fibres while also resolving the end of life waste problem that currently exists. This is a vision that Coats is committed to, and we are already taking steps to play our part in the complex circular supply chains of the future.

CHALLENGES TO OVERCOME

To close the loop from waste textile to new fibre is not a trivial set of challenges, and much still needs to be done before industrial processes can be established, but a lot of brilliant work in the industry means that there is now at least a roadmap of newly developed processes that can overcome many of them. However, we must stress that there are still substantial technical and industrial hurdles to be dealt with.

Most textile products have more than one textile material in them, and many also have non textile components such as buttons or zippers. Designing new garments to facilitate reprocessing can help to minimise this problem, but it will never be completely eliminated. Automated sorting processes that can detect the materials in a product are being developed and trialled. Removing non-textile components is currently a highly manual, expensive process.

Once materials have been sorted and separated then different recycling processes can be applied. Most fibre recycling to date has been done by physical means, a process that progressively downgrades the fibres meaning that truly circular processing cannot continue for more than one or two cycles before the fibres are so degraded that they can no longer be processed. A number of companies have developed chemical reprocessing technology for both natural and synthetic material types and the first bulk industrial trials of these processes are currently underway.

THE CHALLENGE OF THREAD FOR CIRCULAR PROCESSES

Thread makes up a very small proportion of a finished garment, typically around 1-2%. Currently, as noted previously, most thread is made from polyester whether the material being sewn is cotton, polyester, a blend of the two of them or some other fibre. This means that thread is often of a different material to the rest of the product. The small material footprint combined with the different material composition makes thread an additional challenge for circular recycling.

Furthermore threads and the seam structures they are sewn into have been developed to be extremely durable. In most cases a seam will comfortably outlive the material used in the garment. This is an additional challenge when it comes to selective disassembly of seams, for example to remove non-textile elements, and is a major reason why this is a high cost manual process at the moment.

THE COATS CIRCULAR STRATEGY

We believe that we have to develop and offer designers products that will turn thread from being part of the recycling challenge to part of the solution. A garment of the future must be designed for easy recycling and our commitment is to meet this in three ways. Firstly threads must be able to match the fabric in terms of material type so that the thread can be recycled using the same chemical process as is used for the fabric. Secondly, threads must be offered that facilitate easy and low-cost disassembly of seams. Thirdly we must develop these threads, wherever possible, from recycled textile materials.

WORKING IN COLLABORATION

The new supply chains that will deliver the circular models of the future will only come together through collaborative working between many parties. In order that Coats can participate actively in this project we have joined the Ellen MacArthur Foundation, which has been working for years on developing circular models for different industries and is currently the principal organisation spanning across the textile industry activities in this area. We believe that by bringing our current product developments and our innovation capabilities into this collaborative venture we will help to accelerate the much needed transformation of our industry.

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COATS GLOBAL CIRCULARITY

HUMUS, CO₂, H₂O

The end result of the biodegradation is to release water and carbon dioxide and it leaves a rich humus that can be used to enrich soils for future crops

BIODEGRADATION

Biodegradation is caused mainly by microbial action on the fibres. This can take place under aerobic or anaerobic conditions and at different temperatures. Some synthetic polymers that would normally be regarded as technosphere materials can now be made biodegradable.

COTTON GROWING

Cotton growing requires a lot of water and, unless it is organic, it tends to use a lot of pesticides. Increasingly there is a focus on stewardship programmes for cotton cultivation so that the environmental and social aspects of farming cotton are managed responsibly

FIBRE PRODUCTION

High quality cellulosic fibres are generally produced through the Lyocell process whereby the pulp is dissolved and then extruded through a spinneret in a dry/wet spinning process.

CLEANING & PULPING

Pulp production for recycled cellulosic material is not very different to the processes already used for recycling other cellulosic materials, such as paper, but there generally need to be some additional mechanical processes with textiles to assist with the pulping.

CELLULOSIC MATERIAL GRADING

Sorting of materials by quality and condition is important to ensure that waste material flows are as consistent as possible. Increasingly this will be done by automated processes. Also at this stage non-cellulosic elements can be removed.

FIBRE PRODUCTION

Polymer chips are melted and extruded to produce continuous textile filaments. These can be cut to produce short staple fibres, similar to cotton, or left as continuous filament yarns

RE-POLYMERISATION

This step requires the production of new polymer chips with the same properties as virgin polymers. In the case of the most common type of textile polyester (polyethylene terephthalate - PET) this means recombining the precursors.

PLASTIC DE-POLYMERISATION

Polyester fibres can be broken down into precursors, such as purified terephthalic acid (PTA) and monoethylene glycol (MEG). This allows for the removal of impurities such as dyes and means that the qualities of the polyester coming from the subsequent re-polymerisation are not dependent on the properties of the polyester feedstock used.



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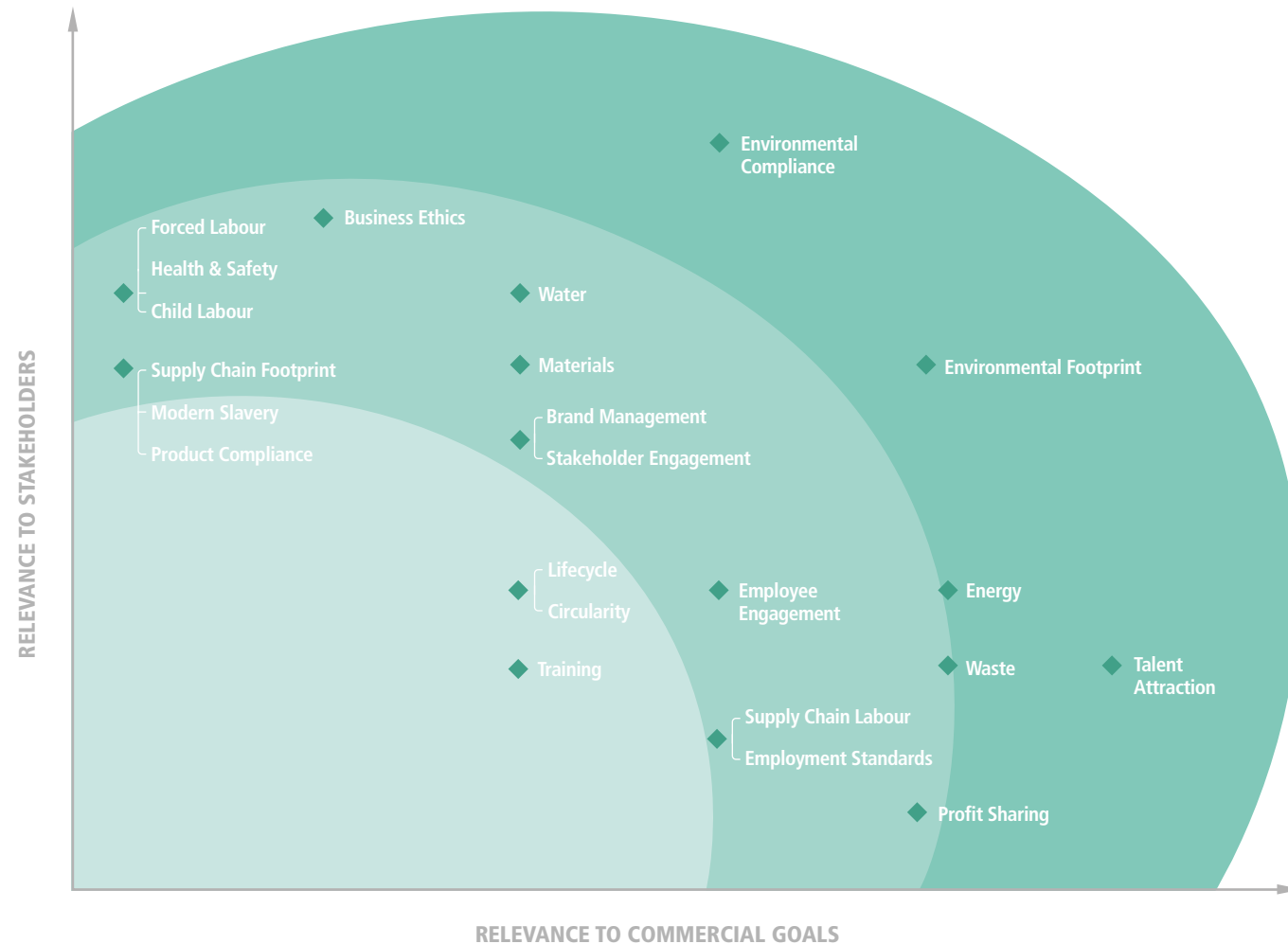
MANAGING SUSTAINABILITY

MATERIALITY

We normally update our materiality assessment on a biennial basis and our last review took place at the end of 2019, so the next scheduled review would be in late 2021. As the pandemic developed in 2020 we could see clearly that this event, with all its implications, would have a significant impact on materiality. The relevance of key issues to our stakeholders and to our commercial goals was bound to be different post-pandemic to the situation pre-pandemic, and we considered doing a materiality assessment update during 2020 to try to capture this. We decided not to as we felt that the full impacts of the pandemic might not yet be apparent and that it was therefore appropriate to delay the update till 2021 but to do it early in the year rather than at the end.

This process is already underway and will be completed in the second quarter so that it can feed into a sustainability strategy review during the second half. The approach we are taking is similar to the 2019 review, we will evaluate each issue against its relevance to Coats' three commercial goals (i.e. Profitable Sales Growth, Increased Productivity and Value Delivery) and their importance to each of our key Stakeholder groups (i.e. Employees, Customers, Shareholders, the Environment, Communities and Suppliers).

In the meantime, shown here are the top issues from our 2019 assessment. We anticipate that the most significant impacts from the pandemic will be in the Social elements, but we also recognise that issues such as climate change have grown in importance during 2020 because of underlying trends.



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ANDREW MORGAN
HEAD OF
SUSTAINABILITY

LEADER'S VOICE

Sustainability themes have always felt central to the way that Coats operates. However, it was only through the work done leading up to developing our new sustainability strategy in 2018 that a lot of implicit assumptions were fully captured and made explicit elements within the strategy. This process has helped greatly in ensuring that the whole organisation is fully aligned and committed to delivery on the strategy, and this is essential because delivering on sustainability is central to the role of every one of our colleagues in Coats.

Our greater transparency and improved communications around sustainability, which have come through the development of the strategy have also made it much easier to establish clear commonality of interest and shared objectives with all of our stakeholder groups.



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MANAGING SUSTAINABILITY



VICTORIA HUXSTER
HEAD OF INVESTOR
RELATIONS

LEADER'S VOICE

Sustainability is right at the top of the agenda for investment houses in 2021, as those that invest into their funds demand ever greater stewardship and responsibility with their money. Coats has been at the forefront of the sustainability journey for a long time, but we must make sure that we know exactly by what metrics we are judged so that we can help those researching us to undertake their investment decisions with as much detail as possible. Engagement around Sustainability with individual investors is therefore key, both with existing as well as potential shareholders - this is a focus for Investor Relations at Coats for the coming year.

GOVERNANCE AND MANAGEMENT

Sustainability is a foundation underpinning all that we do. The delivery of our strategy demands the participation and support of the whole organisation, and our targets form part of the personal objectives of most of our senior management. Sustainability is woven through our business and incorporated into every decision we make.

The Board take ultimate responsibility for our sustainability strategy and performance, and the programme is championed by our Group Chief Executive and the whole Group Executive Team (GET) who take responsibility for setting the direction, monitoring the performance and the long-term success of our sustainability programme. The delivery of our strategy is managed by our Head of Sustainability who is responsible for the management of our Sustainability Delivery Team (SDT). This team is sponsored by the Chief Legal & Risk Officer and Group Company Secretary, the President, Business Operations and the President of Apparel & Footwear, all GET members, and brings together colleagues from across the business to provide the right mix of experience and expertise to continue the implementation of our strategy in an efficient and effective manner. The SDT meets regularly and creates distinct subgroups to focus on specific projects when needed.

STAKEHOLDER ENGAGEMENT

Recognising and understanding our stakeholders and their opinions plays an important part in guiding our business strategy and our approach to sustainability. Engaging and communicating with them helps us to identify issues of importance and helps us to determine the right responses.

Our key stakeholders include our employees, our customers –the apparel and footwear industry and brands that buy or specify our threads and our performance materials customers– our shareholders, the environment in general, the communities in which we operate and our suppliers.

Each of these stakeholders places different expectations upon our business. This is why we endeavour to connect with our stakeholders across many different channels at both global and local level. Our stakeholders and the way we engage with them is described in more detail on our website www.coats.com/sustainability.

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At the moment our sustainability data is not externally verified. It is our intention for ESG disclosures for the year ending 31 December 2021 to be subject to certain external assurance procedures and the evolution of the internal review processes that had already been undertaken to support this aim.

PILLAR	INDICATOR	UNIT	2014	2015	2016	2017	2018	2018 RESTATED ¹	2019	2019 RESTATED ¹	2020
 WATER Managing a precious resource wisely	Total water used	Million cubic metres	8.3	8.3	8.2	7.9	7.7	7.8	7.4	7.6	5.9
	Water intensity	Litres/kg produced	127	121	118	112	92	83	90	83	78
	% of water recycled	%	2%	4%	8%	11%	20%	20%	24%	23%	22%
	% water from municipal supply	%	41%	39%	36%	37%	36%	37%	36%	37%	39%
	% of water from ground water sources	%	27%	26%	27%	24%	24%	23%	21%	21%	21%
	% water from natural watercourses and reservoirs	%	30%	30%	28%	28%	20%	20%	18%	18%	18%
 ENERGY Renewables for a sustainable future	Total energy used in operations	Million kWh	858	833	829	823	792	873	770	845	676
	Energy intensity	kWh/kg produced	13.2	12.2	11.9	11.5	9.4	9.2	9.3	9.2	8.9
	Non-renewable electricity used	%	31%	32%	30%	29%	29%	35%	31%	36%	35%
	Natural gas used	%	33%	33%	35%	34%	33%	28%	31%	27%	29%
	Oil used	%	11%	6%	6%	7%	5%	5%	5%	4%	4%
	Coal used	%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Renewable energy used	%	25%	29%	29%	30%	32%	32%	32%	33%	31%
	% Electricity covered by renewable certificates	%	–	–	–	–	–	4%	–	5%	6%
 EFFLUENT & EMISSIONS Working for a cleaner world	% of water discharged as effluent	%	87%	80%	79%	77%	68%	69%	62%	62%	67%
	Environmental prosecutions	No.	0	0	0	0	0	0	0	0	0
	% effluent that is compliant with ZDHC	%	–	–	–	–	–	–	63%	–	74%
	Investment in effluent treatment plants and technology	Million \$	3.4	0.9	1.6	2.2	3.6	–	4.6	–	1.5
	Total carbon footprint	Thousand tonnes CO ₂ e	322	305	319	311	288	303	275	289	233
	Scope 1 emissions footprint	Thousand tonnes CO ₂ e	81.5	67.8	70.9	71.8	64.5	67.1	58.3	61.1	49.2
	Scope 2 emissions footprint (location based)	Thousand tonnes CO ₂ e	240.4	237.6	247.6	238.8	223.9	236.2	216.4	228.3	183.3
	% scope 2 emissions covered by renewable certificates	%	–	–	–	–	–	4	–	5	6
	Emissions volume intensity (location based)	CO ₂ e kg/kg production	4.9	4.5	4.6	4.3	3.4	3.2	3.3	3.2	3.1
	Emissions value intensity (location based)	CO ₂ e tonnes/\$m sales	210	208	219	206	204	200 ⁵	198	192 ⁵	200

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PILLAR	INDICATOR	UNIT	2014	2015	2016	2017	2018	2018 RESTATED ¹	2019	2019 RESTATED ¹	2020
 SOCIAL Safe and sustainable workplaces and communities	Permanent employee headcount ²	No.	19,204	18,985	19,079	19,419	18,239	–	17,725	–	17,943
	Permanent employee average tenure	Years	–	–	–	–	10.3	–	11.1	–	10.3
	Permanent employee turnover	%	–	–	–	–	–	–	25%	–	20%
	Temporary Employee Headcount	No.	–	–	–	–	–	–	–	–	3,163
	% female permanent employees	%	40%	41%	40%	41%	39%	–	41%	–	42%
	% female senior managers	%	19%	19%	21%	22%	23%	–	24%	–	23%
	% female Board members	%	13%	11%	22%	30%	30%	–	33%	–	40%
	Employee engagement score	%	81%	83%	83%	83%	83%	–	N/A	–	N/A
	Safety training	Hours/employee	–	–	–	–	28	–	29	–	23
	Sites accredited to OHSAS 18001	No.	–	–	–	–	–	–	9	–	7
	Sites accredited to ISO 45001	No.	–	–	–	–	–	–	3	–	4
	Near misses reported	No.	–	–	–	1,583	1,485	–	1,900	–	1,320
	Near miss reporting rate	No./100 FTE	–	–	–	5.4	5.2	–	7.0	–	6.1
	Hazards reported	No.	–	–	–	33,112	41,583	–	39,471	–	35,083
	Hazard reporting rate	No./100 FTE	–	–	–	114	145	–	146	–	162
	Improvement actions completed	No.	–	–	–	36,014	41,034	–	46,377	–	39,689
	Improvement actions completion rate	No./100 FTE	–	–	–	124	143	–	172	–	183
	Work related incident rate	Incidents/100 FTE	–	–	0.56	0.56	0.62	–	0.50	–	0.59
	Number of recordable incidents	No.	–	–	163	163	178	–	134	135	128
	Average lost days per incident	Days	–	–	12.4	14.7	10	–	12	12	13
	Total lost days from incidents	Days	–	–	2,015	2,320	1,778	–	1,650	1,672	1,669
	Work related fatalities	No.	0	0	0	1	0	–	0	–	0
	Health & safety prosecutions	No.	0	0	0	0	0	–	0	–	0
	Commuting incident rate	Incidents/100 FTE	–	–	–	–	0.33	–	0.42	–	0.37
	Number of commuting incidents	No.	–	–	–	–	96	–	114	–	80



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PILLAR	INDICATOR	UNIT	2014	2015	2016	2017	2018	2018 RESTATED ¹	2019	2019 RESTATED ¹	2020
 SOCIAL CONTINUED	% workforce with 'Great Place to Work' or equivalent certification	% workforce	–	–	–	–	–		19%		6%
	Permanent employees subject to a collective agreement	%	–	–	–	38%	37%		43%		46%
	Permanent employees that are members of a union	%	–	–	–	34%	38%		43%		47%
	Diversity in employees	No. of nationalities	–	–	–	68	63		60		60
	Diversity in senior managers	No. of nationalities	–	–	–	43	32		31		31
 LIVING SUSTAINABLY Protecting our planet	% premium polyester sales from recycled material	%	–	–	–	–	–		2%		13%
	Total waste generated ³	Tonnes	–	–	–	–	12,232	24,092	12,450	25,401	17,610
	% total material waste	%	–	–	–	–	9%	15%	9%	16%	14%
	Reused or recycled waste	% of waste	–	–	–	–	73%	73%	71%	69%	66%
	% units sending zero waste to landfill	%	–	–	–	–	–		67%	65%	47%
 OTHER	Total materials purchased by Coats	Tonnes	132,694	136,249	146,394	138,589	136,705	139,399	142,398	144,802	115,302
	Materials uses in Coats products	Tonnes	87,002	90,444	95,261	93,268	91,431	94,125	102,287	104,691	78,996
	Employees completing compliance training	No.	>4,000	>4,500	>4,500	>4,500	>4,000		>4,000		>4,200
	Employees completing modern slavery training	No.	–	–	–	–	–		3828		699
	Number of colours dyed	Thousand	156	164	162	171	174		176		158
	Number of dye batches produced	Million	3.5	3.6	3.7	3.9	3.8		3.8		3.1
	Direct economic value generated and distributed	\$ million	1,033	1,558	1,459	1,501	1,543		1,396		1,166
	% economic value distributed to suppliers	%	65%	65%	63%	61%	62%		60%		62%

¹ Where possible 2018 and 2019 are restated to include HP Pharr which was purchased in January 2020. This is to provide a like for like comparison.

² Permanent headcount includes JV operations in China so the numbers don't reconcile exactly to the statutory headcount in the Annual Report

³ With the completion of the Coats Waste Catalogue additional waste elements have been added to the waste total, leading to a restatement of 2018 and 2019 numbers (in addition to the inclusion of HP Pharr)

⁴ This calculation is based on IEA average CO₂e conversion factors for countries buying electricity and DEFRA conversion factors for other Scope 2 energy purchases

⁵ 2018 and 2019 have been restated to include HP Pharr revenue

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